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# MARKETING & MEDIA DECISIONS

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# MARKETING & MEDIA DECISIONS

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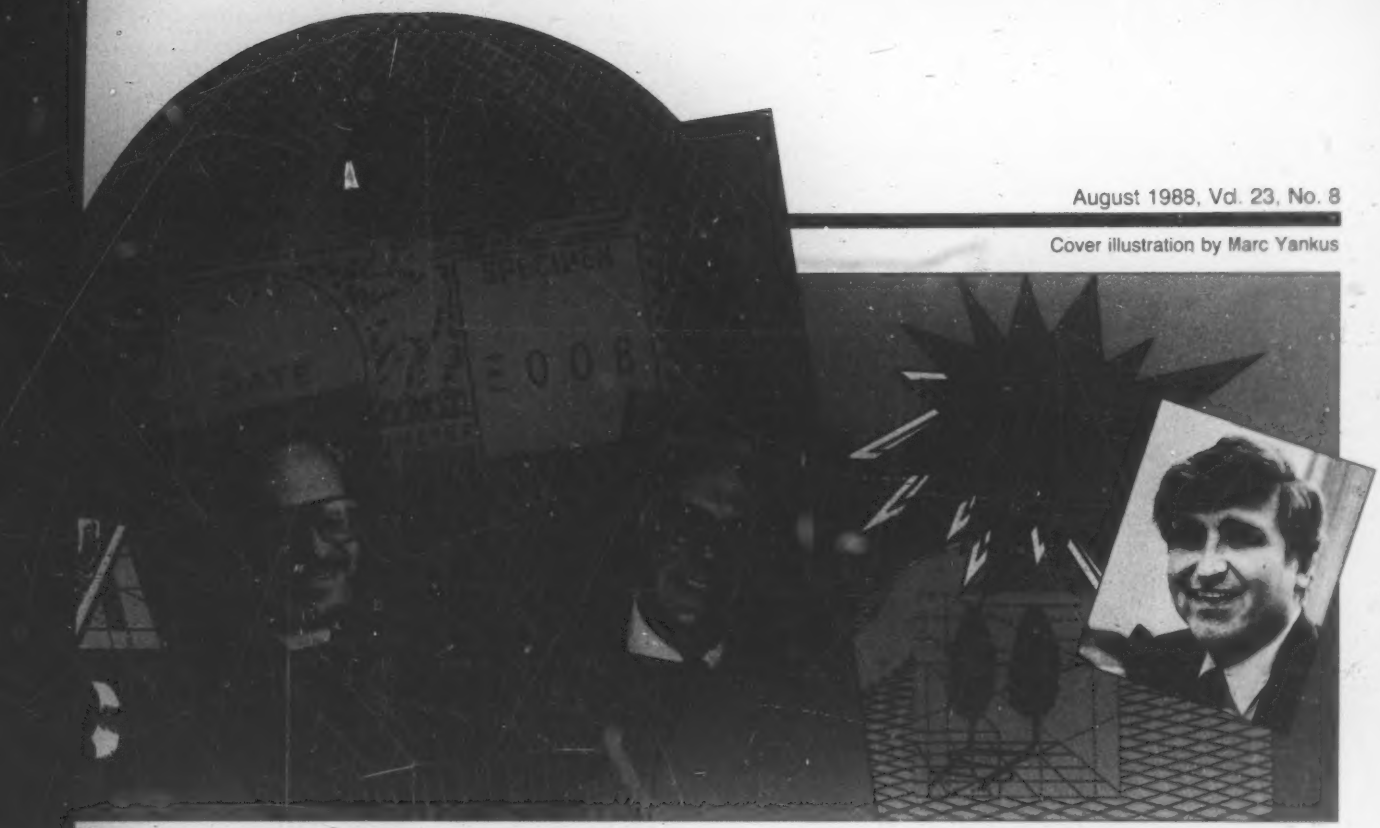
August 1988, Vol. 23, No. 8

Cover illustration by Marc Yankus



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# DIRECT MARKETING

*by Rebecca Fannin*

## GOLD FROM SILVER

A new study by Goldring & Co., a Chicago-based research firm, highlights the need for direct marketers to further tap the silver-haired set — those who are 50 years old and older.

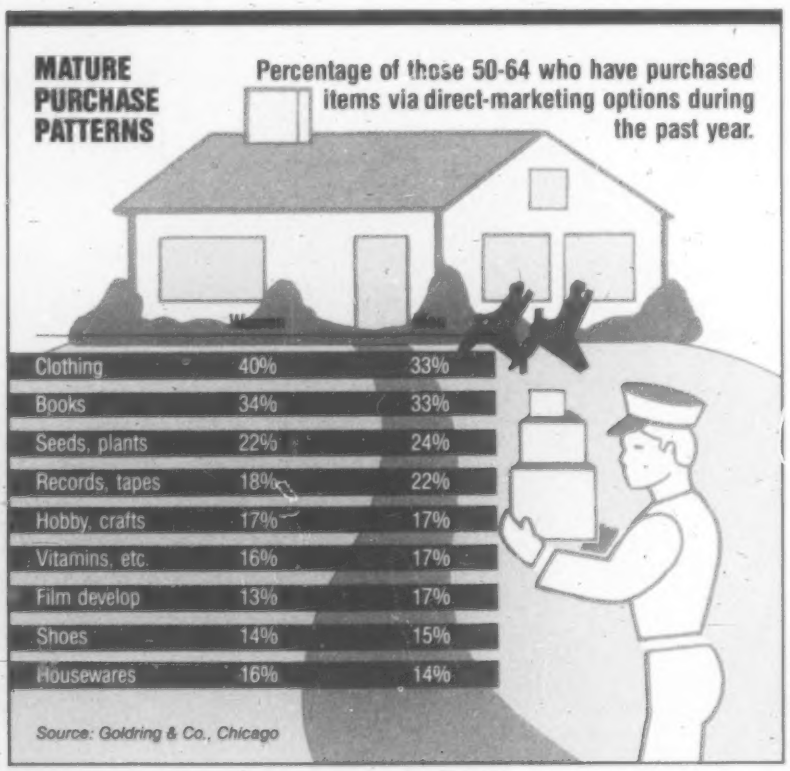
Labeling this market as neglected, Goldring notes there is a wide gap between how this set views shopping by mail or phone and how much they actually indulge in the practice.

For instance, the mature market seems quite knowledgeable about ordering by mail or phone, with nearly half of the market claiming to know which catalog companies are reputable and which are not. Older women in particular are more likely than men to claim this knowledge. In addition, much of this "graying set" — especially the women — thinks buying by mail or phone is a convenient way to shop. Moreover, 80% of the men and 90% of the women say they enjoy looking through catalogs and other mail-order offerings, even when they have no particular intention to purchase anything.

Now for the bad news. Goldring, which questioned 2,600 persons, finds that over one in three persons say they have had some sort of bad experience buying through the mail. And only one in six persons say they expect to make more of their purchases by mail in the future.

As for current direct-buying habits, 73% of older men bought something by mail or telephone during the past year, and 71% of the women did the same. Clothing and books are the most frequently purchased mail-order items, followed by seeds and plants. Record and tape purchases rank high among the men. (See chart for additional statistics.)

Purchasing habits don't change much as people age from 50 to 64, but after that, frequency of mail or phone order purchases does drop off. One exception is vitamin supplements and other health-food products. They are purchased more frequently by those past retirement age.


MATURE PURCHASE PATTERNS
Percentage of those 50-64 who have purchased items via direct-marketing options during the past year.
Clothing 40% 33%
Books 34% 33%
Seeds, plants 22% 24%
Records, tapes 18% 22%
Hobby, crafts 17% 17%
Vitamins, etc. 16% 17%
Film develop 13% 17%
Shoes 14% 15%
Housewares 16% 14%
Source: Goldring & Co., Chicago
BARRY GOTTLIEB

## A PRODUCTION PARTNER

AyerDirect, the direct-response division of N W Ayer Inc., is venturing into production management with DirectPro, a new service unit. DirectPro, says AyerDirect vice president Robert Sanchez, is set up to help direct mailers manage campaigns that are high volume and production intensive.

Ayer is selling this service on an ad-hoc consulting basis to both clients and new prospects. It is being pitched to what Ayer sees as a gap in the marketplace: those organizations that either don't have the technical experience internally or that have been buying production management services on an as-needed basis.

Sanchez says the agency ought to be able to do a better job than some others because its staff can provide more thorough production consulting. Besides working out the technical details, DirectPro will also get involved with project-feasibility reviews, budget projections, scheduling, postal management and execution. Another selling point: Sanchez says clients will benefit from DirectPro's industry clout, afforded by large-volume purchase and schedules obtained for its total client list.

In addition, DirectPro plans to conduct how-to direct marketing seminars, for a fee, at the client's premises on such subjects as letter-shopping and postal regulations.

# EASY DOES IT

If the media feel like they've been on a rollercoaster this year, they'd better hold on — the ride promises to be just as jangley in the year ahead. Competitive pressure is stronger than ever as media options multiply, both within and outside traditional advertising boundaries. Agencies, having won substantial concessions from sellers in the past few weak years, have institutionalized such exceptions in the form of negotiating committees and hard-nosed thinking. And advertisers continue to maintain pressure on everyone to get more for less of their advertising dollars.

On top of all this comes the writers' strike, the elections and the Olympics, to turn this year's fourth quarter — a bellwether of things to come — into anything but business as usual. It's no wonder long-term planning is a thing of the past.

With that in mind, we bravely present our best estimates of where media costs are likely to head in 1989. To arrive at our estimate, we polled almost 200 agency media directors for their calculations on media costs. We also interviewed many on a one-on-one basis to get a deeper understanding of their plans and talked to the sellers about their costs and pricing strategies.

So here goes: According to our research, the overall average cost of a media unit bought for 1989 will rise 4.0% over last year. This matches an actual average increase for 1988 of 4.0%, as reported by our media directors. Last year, we predicted that it would be a buyer's market, but our poll understated the case: It showed an anticipated overall media-cost rise of 6.1%. The difference between the anticipated and the actual increases shows how tough a year it was for the media as they fought battles on many fronts to maintain their piece of the action.

In tv, only prime time matched anticipated increases as that medium rode the storm of lower ratings and energized competition. Radio, haunted by low numbers and clone-like programing, turned off many advertisers, while outdoor and the print media, despite the appearance of negotiating committees and numerous discount plans, came close to matching the media directors' projections.

**+4.0%**

On the client side, last fall's stock-market mayhem sent a chill through plans and ad budgets. Further complicating the scene was the continued wave of mergers and acquisitions that created new alliances, management teams — in a word, flux, which is always the enemy of aggressive marketing activity. Maintaining the status quo became a goal rather than a given. Sales promotion again saw more dollars as marketers sought to quickly shore up market positions. Overall, every expenditure was examined and reexamined, even as confidence revived.

The agency scene was equally unsettled. Hardly a week went by without a major merger announcement, leaving clients wary of making any big commitments until they got a better feel for the "new, improved" agencies.

There is little reason to suspect major change in the near future; in fact, things may get a little tighter. Certain media are getting squeezed hard as their internal costs rise. Some costs, such as postage and paper, have taken dramatic leaps after years of inactivity. The clouded broadcast signals could, ironically, drive CPMs skyward, but what happens in scatter and beyond in 1989 is very much up in the air. Cable's growing numbers and more sophisticated programing are offering a reason to raise rates after years of just holding on.

To sugar-coat any jumps, the value-added buy will be business as usual for the upcoming year. The concept of the media as a marketing partner will take on a whole new significance as media units are embellished with all manner of discounts and add-ons. Even network tv will learn to play the game in a more visible way.

This is the year when the old rules will be rewritten. Hopefully, the following page will make you a better player. Good luck. ■

## Media Cost Rises

| | 1989 vs. 1988 Anticipated | 1988 vs. 1987 Actual | 1988 vs. 1987 Anticipated | 1987 vs. 1986 Actual | 1987 vs. 1986 Anticipated | 1986 vs. 1985 Actual | 1986 vs. 1985 Anticipated | 1985 vs. 1984 Actual | 1985 vs. 1984 Anticipated |
|---|---|---|---|---|---|---|---|---|---|
| **Average increases—unit cost** | | | | | | | | | |
| Nighttime network tv | 3.5% | 5.9% | 6.0% | 3.2% | 4.0% | 5.9% | 7.0% | 7.9% | 9.2% |
| Daytime network tv | −1.4 | −3.4 | 0.5 | −7.7 | −3.8 | 3.9 | 6.9 | 10.5 | 12.7 |
| Spot tv | 5.0 | 5.9 | 8.4 | 5.6 | 5.5 | 5.8 | 7.7 | 7.6 | 7.8 |
| Network radio | 3.3 | 3.2 | 6.4 | 5.7 | 5.1 | 9.1 | 7.2 | 7.9 | 7.3 |
| Spot radio | 3.9 | 4.0 | 6.0 | 4.4 | 4.4 | 5.6 | 6.8 | 6.7 | 7.4 |
| Consumer magazines | 5.0 | 4.7 | 5.6 | 4.3 | 6.7 | 7.0 | 7.7 | 8.0 | 8.2 |
| Natl Sunday magazines | 4.4 | 4.1 | 5.6 | 4.8 | 5.1 | 2.9 | 6.7 | 8.3 | 8.3 |
| Daily newspapers | 6.1 | 6.0 | 6.6 | 6.5 | 7.2 | 7.4 | 7.9 | 8.0 | 8.5 |
| Outdoor posters | 5.1 | 4.8 | 5.3 | 4.9 | 5.3 | 5.7 | 7.2 | 6.5 | 7.3 |
| Business publications | 4.9 | 4.9 | 5.4 | 5.3 | 6.3 | 7.6 | 7.2 | 6.7 | 7.6 |
| Yellow pages | 5.3 | 5.2 | | | | | | | |
| National syndication | 3.2 | 5.4 | | | | | | | |

*Source: Marketing & Media Decisions*

## Anticipated Media Cost Movements 1989 vs. 1988 (Average Changes)

| Medium | Unit Cost | Audience | CPM |
|---|---|---|---|
| Nighttime network tv | 3.5% | −2.4% | 5.3% |
| Daytime network tv | −1.4 | −1.0 | −1.7 |
| Spot tv | 5.0 | −0.2 | 4.5 |
| Network radio | 3.3 | 0.6 | 2.9 |
| Spot radio | 3.9 | 0.4 | 3.6 |
| Consumer magazines | 5.0 | 0.4 | 4.6 |
| Natl Sunday magazines | 4.4 | 0.3 | 4.6 |
| Daily newspapers | 6.1 | −0.4 | 6.6 |
| Outdoor posters | 5.1 | 0.6 | 4.6 |
| Business publications | 4.9 | 0.4 | 4.3 |
| Yellow pages | 5.3 | 1.1 | 4.2 |
| National syndication | 3.2 | −0.5 | 3.2 |
| **Response Ranges** | | | |
| Nighttime network tv | −2 +12% | −5.5% | −2 +12% |
| Daytime network tv | −15/+7 | −5/+7 | −15/+10 |
| Spot tv | −2 +5 | −3 +2 | −2 +9 |
| Network radio | −5/+7 | −1/+3 | −5/+7 |
| Spot radio | −1 +7 | −1 +2 | −1 +8 |
| Consumer magazines | −5/+8 | −2/+3 | −5/+9 |
| Natl Sunday magazines | −1 +11 | −1 +2 | −1 +8 |
| Daily newspapers | 0/+11 | −5/+1 | +3/+10 |
| Outdoor posters | −1 +7 | −1 +2 | +1 +8 |
| Business publications | −5/+8 | 0/+2 | −5/+8 |
| Yellow pages | −1 +11 | −1 +4 | +1 +8 |
| National syndication | −5/+10 | −6/+5 | −5/+8 |

*Source: Marketing & Media Decisions*

## Actual Media Cost Movements 1988 vs. 1987 (Average Changes)

| Medium | Unit Cost | Audience | CPM |
|---|---|---|---|
| Nighttime network tv | 5.9% | −6.7% | 12.5% |
| Daytime network tv | −3.4 | −2.5 | −0.4 |
| Spot tv | 5.9 | −0.2 | 6.3 |
| Network radio | 3.2 | −0.2 | 3.9 |
| Spot radio | 4.0 | 0.6 | 3.4 |
| Consumer magazines | 4.7 | 0.4 | 4.4 |
| Natl Sunday magazines | 4.1 | 0.3 | 4.8 |
| Daily newspapers | 6.0 | −0.2 | 6.6 |
| Outdoor posters | 4.8 | 0.7 | 4.3 |
| Business publications | 4.9 | 0.8 | 4.4 |
| Yellow pages | 5.2 | 0.5 | 4.7 |
| National syndication | 5.4 | −0.1 | 6.0 |
| **Response Ranges** | | | |
| Nighttime network tv | 0 +15% | −17 +2% | 0 +20% |
| Daytime network tv | −20/+10 | −15/+5 | −25/+15 |
| Spot tv | −2 +8 | −3 +2 | 0 +9 |
| Network radio | −5/+10 | −10/+2 | −4/+17 |
| Spot radio | 0 +9 | 0 +3 | 0 +6 |
| Consumer magazines | −10/+7 | −4/+3 | −10/+8 |
| Natl Sunday magazines | −5 +9 | −1 +2 | −2 +7 |
| Daily newspapers | 0/+12 | −3/+3 | +3/+12 |
| Outdoor posters | +1 +8 | 0 +4.5 | 0 +7 |
| Business publications | −10/+10 | 0/+3 | −10/+8 |
| Yellow pages | +0.5 +12 | −4 +2 | +1 +15 |
| National syndication | 0/+14 | −7/+5 | 0/+12 |

*Source: Marketing & Media Decisions*

# STEADY AS SHE GOES

*by Paula Schnorbus*

The old saying "All things in moderation" could very well refer to the economy, which a sampling of economists see as "chugging along" or "solid, but not spectacular" for the second half of 1988 and the first half of 1989.

Most say that the strong manufacturing sector is being offset by weak consumer spending. However, the good news is that a recession isn't being predicted.

But economists are divided on inflation. For the second half of this year, some expect higher inflation levels, which go hand-in-hand with higher interest rates; by the first half of 1989, they are figuring on some slackening in both numbers.

Following are the opinions of economists and media analysts who offer their views on where they believe the economy is headed and the effects it may have on media costs.

**Deborah E. Johnson**
*Senior economist and vice president, Prudential-Bache Securities Inc.*

"The overall economy will just continue in what we call a 'chugging mode,' meaning the economy is neither booming nor busting, just muddling along," reports Johnson.

"The strength in the economy is coming from the industrial sector. While the consumer is still out there spending, he's doing it at about half the rate of prior years," explains Johnson. "Weaker consumer spending should prevent any kind of a boom in the economy and should allow interest rates to trend lower."

She adds that "one of the keys to the forecast is that we continue to look for low inflation." The reasoning is that "wage inflation will continue to be pretty moderate," figures Johnson. "We're keying a lot of our good inflation numbers off very good productivity. It's a very rosy scenario."

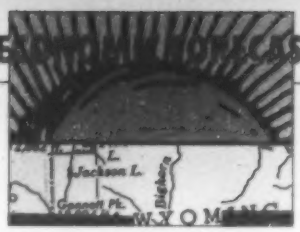
**Edward F. McKelvey**
*Vice president and senior economist, Goldman Sachs & Co.*

"In the second half of the year, we expect the economy to slow from what has been an unsustainably rapid 4% GNP growth rate," says McKelvey. "The slowing reflects the absence of

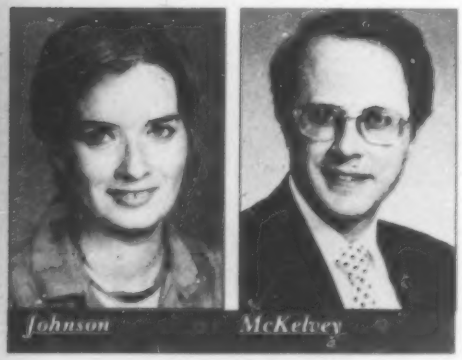
**Projected Increases at a Glance**

| | GNP | Unemployment | CPI | Interest rates (t-bills, 3 months) |
|---|---|---|---|---|
| **Deborah E. Johnson** | | | | |
| Second half '88 | 2.5% | 5.2% | 4.0% | 5.7% |
| First half '89 | 2.7% | 4.8% | 4.0% | 5.0% |
| **Edward F. McKelvey** | | | | |
| Second half '88 | 1.5% | 5.6% | 5.25% | 6.75% |
| First half '89 | 1.5% | 5.8% | 5.5% | 7.25% |
| **Rosanne Cahn** | | | | |
| Second half '88 | 4.0% | 4.9% | 5.0% | 7.25% |
| First half '89 | 1.0% | 5.4% | 5.5% | 5.75% |
| **David M. Jones** | | | | |
| Second half '88 | 3.2% | 5.3% | 5.8% | 7.0% |
| First half '89 | 2.8% | 5.4% | 6.2% | 7.25% |
| **Nancy R. Lazar** | | | | |
| Second half '88 | 2.0% | 5.5% | 4.5% | 6.75% |
| First half '89 | 1.5% | 5.7% | 3.0% | 6.25% |

*Source: Marketing & Media Decisions*




support from the construction and automobile sectors, which had been influences in the second quarter. And it also reflects a continuation of a slowing trend in industrial output, which has been underway since the middle of 1987." But he adds that demand could rise as "U.S. producers may be gaining a larger share, thanks to three years of decline in the dollar."




McKelvey predicts that "for the first half of 1989, expect most of the trends of the second half [of 1988] to continue." During both periods, inflation will be at around a 5% to 5.5% rate because of upward pressure on food prices and imported goods.

He cautions that "should the inventory accumulation in manufacturing become higher in the second half of 1988, then there is a risk that producers will become more aggressive in cutting back production. That would lead to a somewhat weaker outlook than we now envision. This could also occur if unexpectedly strong demand in the second half of 1988 intensified upward pressure on interest rates."

**Rosanne Cahn**

*Vice president and economist, First Boston Corp.*

"Economic growth is strong," Cahn states. "That growth will put upward pressure on inflation, and interest rates will go up as a consequence," she says. "But the first half of 1989 will see the the economy slow as a consequence of higher rates this year. A recession will be averted because rates will drop."

Cahn expects "consumer spending to increase less rapidly than the GNP for the rest of this year." But the consumer will have "decent income growth as a result of exports and capital spending, which makes jobs in manufacturing industries," she reasons.

Regarding the election, Cahn says, "A tax increase is more likely under Dukakis than Bush, although the possiblity of a tax increase in 1989 under either candidate isn't gigantic because the voters haven't shown the least bit of interest in deficit reduction."

**David M. Jones**

*Senior vice president and economist, Aubrey G. Lanston & Co.*

"I'd say the economy is experiencing solid but not spectacular growth," says Jones. "The areas of strength, particularly in the second half, will be the industrial sector, largely because of the surge in export demands."

Jones predicts that "capital spending will be strong, and consumer spending will be more moderate, maybe in the vicinity of 1.5% to 2% growth. The weak sister is housing." He feels that "for the first half of 1989, we could get some moderation in exports in particular, as a result of the recent strengthening of the dollar." He warns "consumer spending will be relatively flat because of higher interest rates, which must counter inflationary pressures brought about by higher food prices and investors demanding higher interest returns."

**Nancy R. Lazar**

*Vice president and economist, Cyrus J. Lawrence Inc.*

"Basically, the economy has two tiers, and one is strong and the other relatively weak," explains Lazar. "The strong sector is manufacturing, and that's due to the drop in the dollar and the positive influence it's having on export growth." But it is being offset, she says, "by sluggish consumer spending at retail and a sharp decline in housing. The pullback in consumer spending appears to be due in part to high debt levels," says Lazar. This translates, she believes, into a forecast for "relatively moderate growth."

She adds that "based on the acceleration in commodity prices, inflation is now accelerating and will be the main upward force on interest rates. That should slacken in the first half of 1989 as the economy cools . . . we expect a pullback in growth in early 1989 due to interest rates and the high level of debt accumulation for the economy as a whole," sums up Lazar.

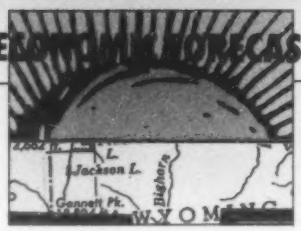
## MEDIA ANALYSTS

**Peter A. Falco**

*First vice president, securities research and economics, and senior industry specialist, Merrill Lynch & Co.*

"Overall, I would guess that advertising in 1988 will be up around 7%," predicts Falco. "Magazines are tough to call, and the reports of magazine revenues by the trade associations are clearly overly optimistic and don't fully account for discounting and deals in the market place," he explains. "I'm staying with a number like 6% this year and 4% for next."

"In tv for 1988, I'm estimating a little over an 8% rise, with networks up around 10%, national up around 6% and local up around 7%," says Falco. "I'm expecting 3% for next year for network," he continues, reasoning "there will be a negative swing from coming off an election/Olympic year." He pre-




dicts 6% for spot this year and 5% for next. Local will drop to 6%.

Furthermore, he figures, "You will see a step down in newspaper ad revenue gains, from 6.5% this year to maybe 4.5% next year, because of the poor retail picture." Falco thinks that classified, which had been holding its own, will taper off at the end of the year as economic growth slows.

**J. Kendrick Noble Jr.**
*First vice president, PaineWebber Inc.*

Concerning newspapers, "assuming a newsprint price increase at the beginning of the year, advertising rate increases will probably be on the order of about 7% for 1989," states Noble.

On the other hand, he says, "network rates will be up very modestly. As far as the upfront picture goes, I think it will be between 0% to a 5% rise." Noble reasons that "we're heading into a non-election year, a slow environment, and television audiences continue to trend down, which should mean that rate increases will be very, very modest, if at all."

The picture changes somewhat for local tv, says Noble, who figures spot rates could rise 5% or more "because local-advertising demand will remain moderately strong."

Rates are likely to increase the most for cable, believes Noble, because its "audience continues to grow." He pegs the possible rate rise at 10%.

Regarding magazines, Noble thinks rates will be up 6% or more, but with package plans or multi-magazine buys, the real rate increases will be less.

**Lisa Donneson**
*Vice president, Salomon Inc.*

"Because of national advertising trends, I expect advertising will continue to remain soft. Raw-material costs are going up for major advertisers, so it's more expensive to introduce new products, and they can't increase the rate of their advertising expenditures," says Donneson.

"Newspaper rates are up around 5% to 6% in general," she continues. "Next year, I'd say they will be a bit stronger because inflation should be a bit higher. There are only one or two newspapers per market, so they have pricing flexibility. Retailers are dependent upon newspapers."

In broadcast, Donneson says rates are pretty similar to revenues, which she predicts in 1988 will be up 8% for network, 7% to 7.5% for local and 6.5% to 7% for spot. But for the first half of 1989, "I think network will be down about 1% because of 1988 Olympics. Station revenues, spot and local, will be up 7% to 8%. If you exclude the Olympics, the underlying trend is


Buy the wrong paper in Tampa Bay and you could be 20 years off target.

St. Petersburg Times
State starts fund for kids' transplants
THE TAMPA TRIBUNE
State's losses on tolls a continuing mystery

The average daily reader of the St. Petersburg Times is over 60 years old, and retired.

The Tampa Tribune's average readers are in their 40's, and shopping.

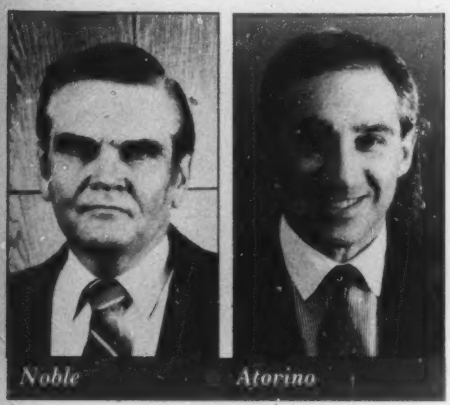
The Times may show a slightly higher circulation, but look at the demographics. If your target is under 60, it's a one-paper buy.

While 40% of the Times' readers are 65 and over, the Tribune offers you a larger average household size, higher average income and over 31,000 more daily and 46,000 more Sunday readers 18-54.

If you can't buy both papers, at least put your client where the buyers are: on target in The Tampa Tribune.

The Tampa Tribune
*Tampa Bay's Newspaper*

*Contact Joe Gess at (813) 272-7447, or your nearest Sawyer-Ferguson-Walker Office.*
Source: 1987 Scarborough Report



*Noble* *Atorino*

3%." She expects radio to be up 6% both this year and next.

"Magazine rates are up 4% to 5% this year, but there's discounting going on, especially with women's magazines," says Donneson. In 1989, "I think rates will be slightly higher because of inflation, but there's too many companies with discount plans. Rates may be up around 5%."

**Edward J. Atorino**
*Managing director,*
*Smith Barney, Harris Upham & Co.*

"The delayed start of the television season and the decline in viewing are two of the factors that will put some pressure on network-tv rates," thinks Atorino. "The networks are going to try and maintain the integrity of the rate structure and maybe try to get some rate increases. But I think they'll be small, somewhere under 5%, if they can get them at all.

"Spot and local tv advertising again will be in the mid-single-digit area," he adds. "Radio has been weak, and I think it's going to stay weak. The dollars in radio are very soft at the moment. There are too many networks chasing too few dollars.

"Newspaper rates were up about 5% to 6%. The problem with newspapers isn't rates, it's volume. Linage has been soft, particularly in retail and national." Atorino thinks the situation may improve but not dramatically.

"Magazine rates are misleading. There's a lot of discounting going on," says Atorino. "Newspaper rates, or stated rates, are 4% to 7%, but that's not very meaningful."

For the first half of 1989, Atorino sees "small increases" in television-advertising rates, with newspapers trying to raise rates 4% to 6% to offset the cost of newsprint. The same rate increases (4% to 6%) are expected for magazines. ■

## Weak consumer spending is offsetting the strong manufacturing sector.

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*March 1988 Publisher's Statement

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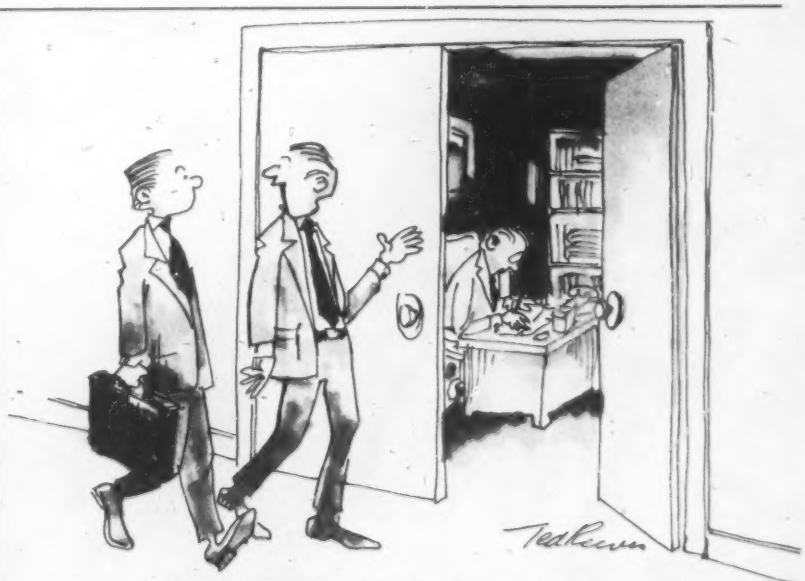

*"He's from the old school. He still thinks that the important people in Orange County read Los Angeles newspapers"*

The Register reaches more people in Orange County households earning over $75,000 than any other newspaper. More than half read no other newspaper.
(Source: Scarborough's 1987 Newspaper Readership Study)

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# AS SAATCHI SEES IT

## The agency's projections paint a conservative picture of rate inflation among the major media.

*by Betsy Frank, Senior vice president, associate media research director, Saatchi & Saatchi DFS Compton*

What a difference a year makes!

Only fifteen months ago, we were predicting "minimal" increases in network television CPMs for 1987-88, based on preliminary findings of the people meter. Since network audiences appeared to be lower, how could the networks justify charging more?

At the same time, those who were in the business of projecting such things were suggesting that 1988 could see the biggest increases in ad spending ever, as a result of the Olympics, the elections and a growing economy.

It wasn't long, however, before reality caught up with theory.

Last summer, the networks enjoyed a record-setting upfront marketplace, and this demand allowed them to command CPM increases that were far from "minimal."

Then October 19th happened, and while no one was predicting a replay of 1929, clearly there was a need to rethink our projections.

In fact, it wasn't long before the networks saw the bottom drop out of the spring and summer 1988 scatter market, especially in daytime.

Now, almost one year after "Black Monday," it appears that the U.S. economy has absorbed the shock of the crash better than originally expected. As a result, most economists are predicting *no* recession for 1988, although the prognosis is less clear for 1989, since the basic problems that contributed to the crash remain.

Against this background, here are Saatchi & Saatchi DFS Compton's most recent projections through 1990. In discussing cost trends, it may be more common to begin with CPM increases. However, if the 1987-88 marketplace taught us anything, it taught us that media inflation is most driven by media demand. Therefore, we will start with an overview of advertising revenue, for 1987 and beyond.

### 1987 ADVERTISING REVENUE

**Network television** spending totaled $8.8 billion, up 3% from 1986. Since network revenues had actually declined in 1986, that 3% gain, most of it concentrated in the fourth quarter, was very welcome to the networks.

**EXHIBIT I**
**ADVERTISING REVENUE ESTIMATES (MILLIONS)**

| | 1986 | 1987 | % Change |
|---|---|---|---|
| Television | | | |
| Network | $ 8,600 | $ 8,815 | + 3% |
| Spot | 13,105 | 13,680 | + 4 |
| Cable | 930 | 1,140 | +23 |
| Syndication | 600 | 720 | +20 |
| Radio | | | |
| Network | $ 380 | $ 371 | – 2% |
| Spot | 6,646 | 6,920 | + 4 |
| Magazines | $ 7,920 | $ 8,158 | + 3% |
| Newspapers | $27,000 | $29,412 | + 9% |
| Outdoor | $ 990 | $ 1,069 | + 8% |
| Total Major Media | $86,171 | $70,285 | + 6% |

Sources:
Network Television: BAR
Spot Television: TVB
Cable: CAB/S&SDFSC
Syndication: AEVA/S&SDFSC
Radio: RAB
Magazines: MPA/S&SDFSC
Newspapers: NAB
Outdoor: IOA

NBC, with 38% of the total, actually increased by 5%. ABC, with 30%, was up 4%, and CBS (32%) was down 2%.

**Spot television** ended the year up 4% at $13.7 billion, with local spending up slightly more than national.

**Cable**, finally reaching 50% penetration, continued to enjoy spectacular growth as viewers found more to watch, such as the NFL on ESPN. Cable spending totaled over $1.1 billion for national and local combined, up 23% from 1986. Local cable spending continued to grow faster than national (+38%) but still accounted for less than 25% of total cable spending.

**Syndication** also continued its rapid growth, increasing 20% to $720 million. More "network quality" programs were becoming available and consequently were clearing in better time periods, drawing higher viewership and becoming more attractive to national advertisers.

**Network radio** ended the year down slightly, but **spot radio** was up 4% to almost $7 billion, most of that growth coming from local advertisers.

**Magazines** reached $8.1 billion, up 3% from 1986, while **newspapers** were up 9% to over $29 billion.

Add in **outdoor**, finally breaking the $1 billion mark, and total major media spending was up 6% from 1986.

Based on this experience, then, what do we see for 1988 and beyond?

## ADVERTISING REVENUE 1988-1990

When forecasters looked ahead to 1988, optimism was based on the so-called "Quadrennial Theory," which holds that election/Olympics years are favorable ones for the media because of "new money" and increased budgets for existing advertisers.

How is this theory holding up?

While ABC reported significant ad-revenue gains during the Winter Olympics, the network wound up losing about $65 million on the games because of high rights fees. NBC is in a better position with its Summer Olympics. The writers' strike may be pushing several major packaged-goods advertisers to break tradition and buy the Olympics just to be on the air in original, high-impact programing.

Political advertising, on the other hand, has not yet materialized as expected, although activity will undoubtedly pick up come fall.

But while the Olympics and the elections may be accelerating growth in ad spending, several other forces are slowing it down.

We are already aware, for example, that while companies have begun to increase capital spending as a result of corporate tax cuts, analysts do not believe much of that windfall is being put back into advertising and marketing.

In addition, there are two media-specific factors to be mentioned:

- First is the proliferation of *new, targeted* and *generally more efficient media alternatives*, including cable, syndication and now the so-called unwired networks. They provide national advertisers with a lower out-of-pocket cost than network television, and their presence gives advertisers the leverage to keep network costs down.
- Second is the *growth of :15s*. Fifteens allow an advertiser to dramatically increase weight without increasing costs — or maintain weight at a reduced cost. Fifteens now represent one third of all network commercials, up from 20% a year ago and still growing.

Here is how we see individual media reacting to these forces (Exhibit II).

**Network television**: We are projecting that network-television spending will be up 10% in 1988, to $9.7 billion. 1989 and 1990 are projected to increase by 6% and 5% respectively, based on the factors outlined above and the softness we saw in the second- and third-quarter 1988 scatter marketplace.


Complete the puzzle

Complete your Chicago buy with the most read newspaper in Southeast Suburban Chicago and Northwest Indiana. The TIMES has more readers than any other area or metropolitan newspaper. And with our special market studies by both Simmons and Scarborough, we can help simplify the puzzle of the complete market buy.

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**Spot television**, up 6% during the first quarter of 1988, is projected to grow by 8% for the year. We have recently revised these projections downward, since the health of the local marketplace is generally tied to the networks' health, and since much of the anticipated political budgets have not as yet materialized. Spot-tv spending is projected to increase by 6% and 7% in 1989 and 1990, with more growth expected for local than national as national advertisers make greater use of the more efficient alternatives.

**Cable**-television revenue, while only about 12% of network revenue, has been growing at a much greater rate, especially for the more targeted networks. We see cable with an increasing share of national dollars due to its efficiency. By 1990, in fact, we see cable with close to 20% of network revenue. We project increases of 22% for 1988, 21% for 1989 and 18% for 1990.

Similarly, **syndication** continues to post double-digit increases as programing and ratings improve. We see revenue growth of 20%, 10% and 10% for 1988, 1989 and 1990.

**Network radio** spending for the first two months of 1988 was up over 5% from a year ago, despite the decline we noted for calendar year 1987. We are projecting 6% spending increases for both 1989 and 1990.

**Spot radio**, which in the past has not grown as rapidly as network, is now expected to increase at a slightly higher rate based on continuing local orientation. We see 6% growth for 1988 and 7% for 1989 and 1990.

The **magazine** industry has seen moderate growth for the past several

## EXHIBIT II
## ADVERTISING REVENUE ESTIMATES (MILLIONS)

| | 1988 | % Change | 1989 | % Change | 1990 | % Change |
|---|---|---|---|---|---|---|
| Television | | | | | | |
| Network | $ 9,700 | +10% | $10,280 | + 6% | $10,795 | + 5% |
| Spot | 14,706 | + 8 | 15,515 | + 6 | 16,619 | + 7 |
| Cable | 1,395 | +22 | 1,685 | +21 | 1,980 | +18 |
| Syndication | 865 | +20 | 950 | +10 | 1,045 | +10 |
| Radio | | | | | | |
| Network | $ 387 | +5% | $ 410 | + 6% | $ 435 | + 6% |
| Spot | 7,335 | + 6 | 7,885 | + 7 | 8,437 | + 7 |
| Magazines | $ 8,647 | + 6% | $ 9,079 | + 5% | $ 9,534 | + 5% |
| Newspapers | $32,045 | + 9% | $34,290 | + 7% | $36,690 | + 7% |
| Outdoor | $ 1,176 | +10% | $ 1,270 | + 8% | $ 1,359 | + 7% |
| Total Major Media | $76,256 | + 8% | $81,364 | + 7% | $86,894 | + 7% |

*S&SDFS Estimates*

## EXHIBIT III
## YEARLY PERCENT INCREASES IN CPM

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Broadcast** | | | | | | | | | | |
| Prime Network (HH) | 8 | 18 | 2 | 20 | 5 | 4 | 11 | 15 | 8 | 5 |
| Day Network (HH) | 5 | 10 | 1 | 18 | 12 | -6 | 1 | 5 | 0 | 2 |
| Spot TV (HH) | 5 | 9 | 8 | 9 | 9 | 6 | 6 | 8 | 5 | 5 |
| Network Radio (A18+) | 8 | 8 | 11 | 9 | 8 | 9 | 6 | 6 | 6 | 6 |
| Spot Radio (A18+) | 8 | 6 | 8 | 7 | 8 | 6 | 6 | 5 | 5 | 7 |
| **Print** | | | | | | | | | | |
| Magazines (Circ) | 10 | 12 | 6 | 7 | 8 | 6 | 6 | 6 | 6 | 7 |
| Newspapers (Circ) | 14 | 16 | 14 | 13 | 10 | 7 | 7 | 6 | 6 | 7 |
| Outdoor (A18+) | 8 | 11 | 8 | 9 | 8 | 6 | 5 | 5 | 5 | 5 |
| **CPI** | 10.4 | 6.1 | 3.2 | 4.3 | 3.6 | 1.9 | 3.7 | 3.9 | | |

*Sources:*
*1981-1987*
*Network Television: Nielsen CPM Reports*
*All other media: S&SDFSC*
*1988-1990*
*All media: S&SDFSC*
*CPI*
*1981-1987: Bureau of Labor Statistics*
*1988: S&SDFSC*

years, a trend we expect to continue in the near future. First-quarter 1988 figures for consumer magazines show growth of 11% over 1987, and we are forecasting 6% for all magazines over the full year. 1989 and 1990 are expected to rise by 5%.

**Newspaper** advertising is most likely to feel the effects of negative economic conditions, and retail advertising, which represents about half of the industry's revenue, has been in sharp decline over the last several months. In addition, newsprint prices, which generally account for 20-30% of a newspaper's costs, have increased about 14% in the last 18 months. We are projecting 9% revenue growth in 1988 and 7% for both 1989 and 1990.

**Outdoor** revenues are expected to increase by 10% this year, 8% in 1989 and 7% in 1990.

For all the major media, then, we see total revenue of $76.3 billion, up 8.5% from 1987. 1989 and 1990 are expected to show more moderate growth of 7% as we begin to see the impact of current economic conditions on advertising spending, as well as increased use of cable, syndication and 15-second commercials.

### CPM INCREASES

How did CPMs change during 1987, and how might our projections for media spending in 1988 and beyond influence media inflation? (Exhibit III)

During 1987, the prime **network** CPM increased 11%, much of it as a result of a tight second- and third-quarter scatter marketplace. Also contributing were the unprecedented CPM increases in the fourth-quarter portion of the 1987-88 upfront. Costs-per-thousand for network television are expected to increase on average by 8% in 1988, the result of a strong upfront and a weak scatter marketplace. Prime-time network should show the highest increases and day network the lowest.

**Spot-tv** CPMs were up by 6% in 1987 and are projected to increase by 8% during 1988.

**Network and spot radio**, up 6% in 1987, should increase 6% and 5% respectively in 1988.

**Magazines** and **newspapers**, up 6% and 7% in 1987, are both expected to increase by 6% in 1988.

We expect **outdoor** CPMs to be up 5% for 1988, in line with 1987.

For 1989 and 1990, we see generally lower increases, especially for network television, with media inflation probably coming closer in line to the CPI.

### SUMMARY

It is evident that the years of uncontrolled media spending and media inflation are behind us. The media are being forced to re-think the economics of their business in light of the new competition, and advertisers are gaining the leverage they need to keep CPMs in line. ■


**WHAT'S WRONG WITH THIS PICTURE?**

**(HINT: KANSAS CITY HAS BEEN OVERLOOKED)**

**Overlooked? We're used to it, even though we're a booming retail market, leaving places like New Orleans, Cincinnati, Milwaukee and Orlando waiting in line.**

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**Before you put together your marketing plan, look closely: If you've overlooked Kansas City there's something wrong with that picture. Call our general advertising manager, Jack Hines, at 816-234-4179 today for more on the must-buy KC market.**

Sources: SRI '87, National Planning Data Corp. and Belden Associates - represented nationally by Cresmer, Woodward, O'Mara & Ormsbee Inc.

**CHECK THE SOURCE**

The Kansas City Star & Times

# A BALANCING ACT

## Buyers and sellers try to find balance in a market thrown askew by a series of weighty challenges.

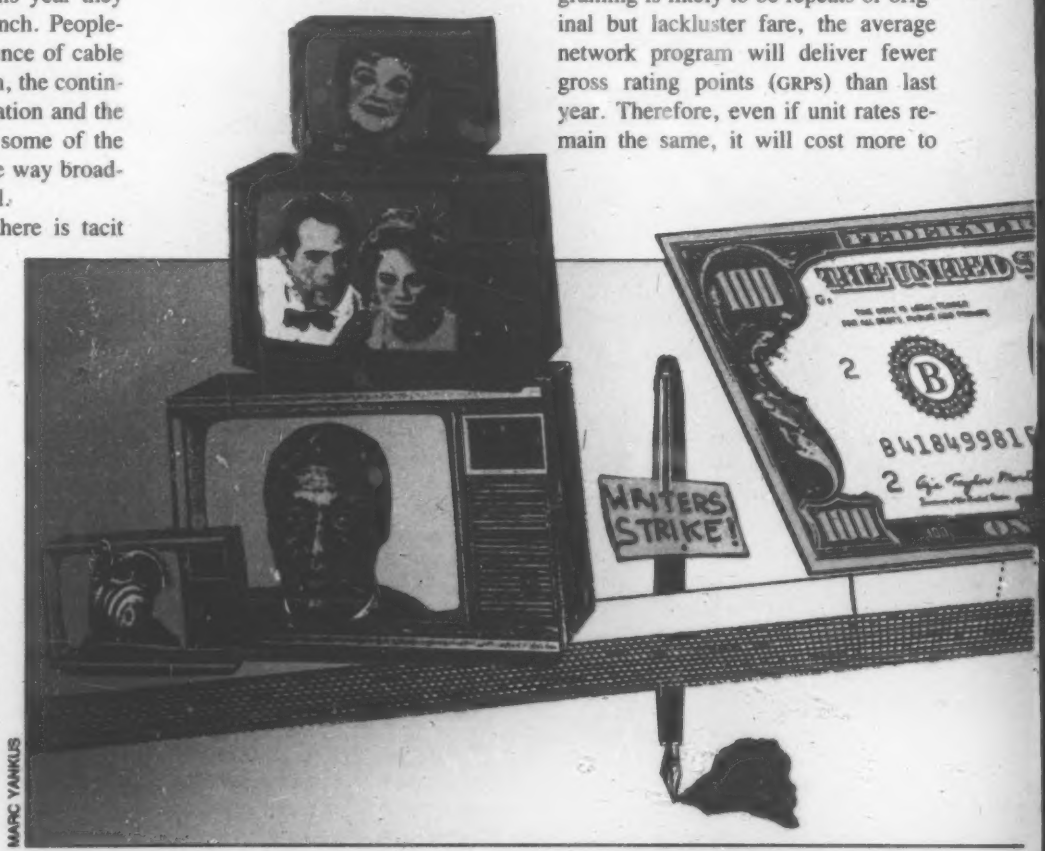
*by Joe Mandese*

Even before a protracted writers' strike threatened to turn the television marketplace topsy-turvy, the 1988-89 season was being heralded by buyers and sellers alike as a "turning point," a "critical year" and a "watershed season." Though these pronouncements have an all-too-familiar echo to them, this year they really may pack some punch. Peoplemeter ratings, the emergence of cable as a truly national medium, the continuing popularity of syndication and the growing use of spot are some of the key factors shaking up the way broadcast tv is viewed and sold.

On the sellers' side, there is tacit acknowledgement that things are not what they once were. Network executives have been suggesting that 1988-89 would be a year of fundamental change in the way they market and sell their product. CBS, for instance, has created a new marketing division whose charter includes a revamping of its sales efforts and a positioning of tv as a "promotional medium," explains Thomas Leahy, president of the new division. "We're trying to sell value. Somewhere along the way, people forgot the power of network television; they take it for granted."

Even first-placed NBC sees the writing on the wall. "This is a very critical marketing junction for us," warned Robert Wright, NBC's president and chief executive officer to his affiliates at their annual convention. Conceding that the networks are "not necessarily well positioned," Wright said that they needed to return to the fundamentals of marketing, "so we become a custom-tailored organization to deal with the marketing objective of advertisers."

Yet despite the multitude of negatives gnawing at network tv this season — and maybe because of one of them, the writers' strike — network CPMs could actually skyrocket for a second consecutive season. With the writers' strike expected to lower the networks' share of viewing, as most of the programing is likely to be repeats or original but lackluster fare, the average network program will deliver fewer gross rating points (GRPs) than last year. Therefore, even if unit rates remain the same, it will cost more to




MARC YANKUS

reach a thousand viewers with the average network show. Moreover, it appears that advertisers will have to buy more network units this year to achieve the same GRP goals they had last year. And finally, if demand remains only as strong as it was last year, rates will likely rise since there will be a lesser supply of ratings points to go around.

"If you have more repeat programing, you bring the numbers down," notes Bob Igiel, N W Ayer's senior vice president and director of programing and network negotiation. "Even if you have no unit-cost increase, the CPMs will go up." NBC's executive vice president of sales and marketing Bob Blackmore concedes that "if the audience goes down and there is the same amount of money, it's going to be a squeeze. I guess the price per rating point will go up."

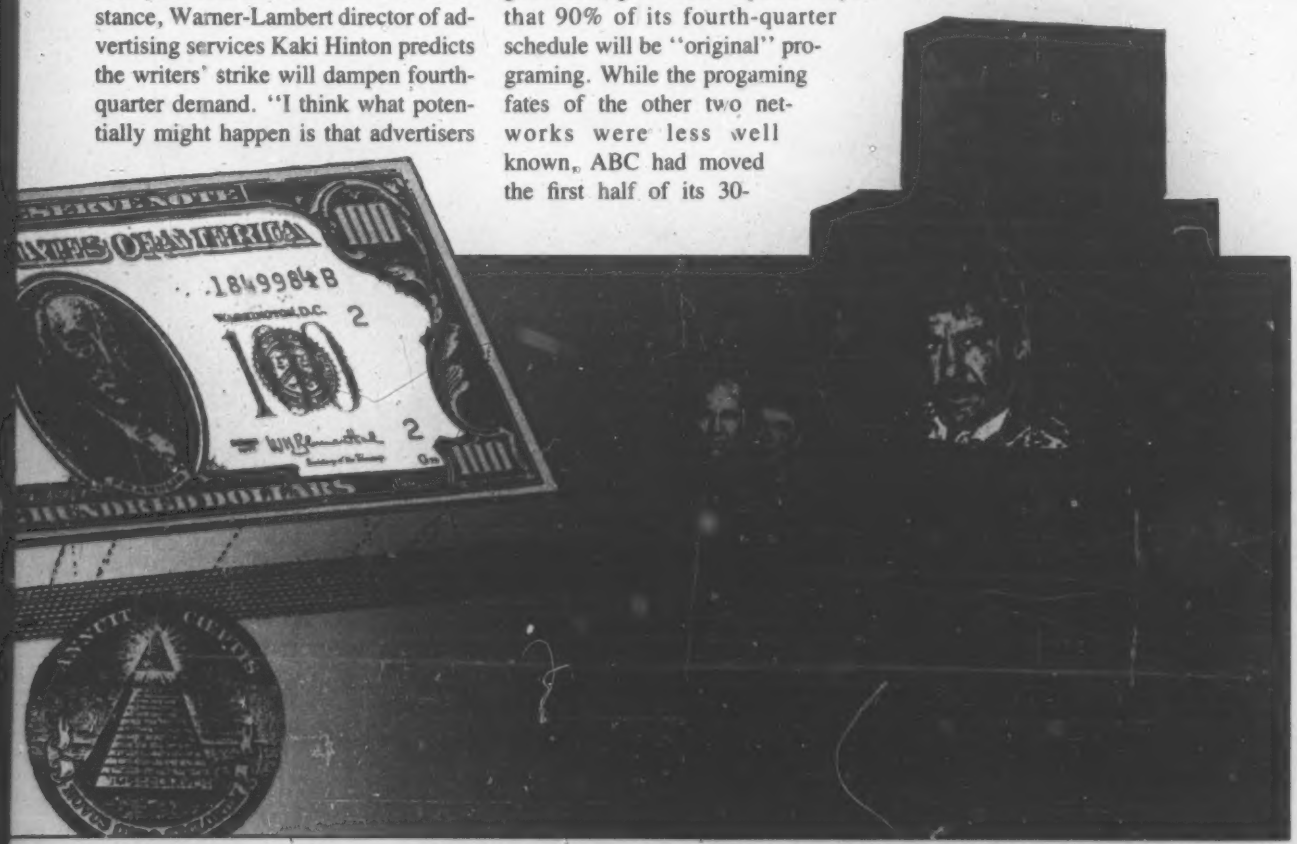
Despite this logical, if unappealing, scenario, advertisers expect network pricing to rise moderately for the coming year. Estimates are that prime-time unit rates will rise 5% to 9%. For instance, Warner-Lambert director of advertising services Kaki Hinton predicts the writers' strike will dampen fourth-quarter demand. "I think what potentially might happen is that advertisers who are working on a fiscal year that coincides with the network calendar year — which starts in October — will probably have a tendency to divert fourth-quarter dollars into the first two quarters of 1989. This will further soften the fourth quarter for advertisers who aren't necessarily on that kind of fiscal year and who can't transfer dollars from 1988 into 1989."

Others, however, don't see the writers' strike as having a major impact on cost per unit. "I don't think it will have a big effect on prices because we typically buy bodies, not shows," explains AT&T corporate broadcast manager Douglas Ritter.

Indeed, while the strike may in fact lower the ratings of network repeats, some believe whatever original network fare appears will benefit by picking up the slack. If that's the case, then NBC may have its best fourth quarter ever with both the Summer Olympics and the World Series on its schedule. In addition, at press time, NBC was guaranteeing its initial upfront buyers that 90% of its fourth-quarter schedule will be "original" programing. While the progaming fates of the other two networks were less well known, ABC had moved the first half of its 30-hour epic miniseries *War And Remembrance* up to November.

Regardless of how the network upfront drama unfolds, buyers say there are enough safety valves in the national tv marketplace to insure against astronomical rates. Citing the mounting pressure of network alternative television, they say advertiser demand is no longer the single most important factor that will determine pricing in tv negotiations. "The biggest variable out there today is that there are so many options," exclaims Saatchi & Saatchi DFS Compton executive vice president and director of broadcast Peggy Green. "A long time ago, you felt if you didn't have network tv, you were dead in the water." This changed perspective, she says, has affected their buying style. "We think we can be very aggressive in our negotiations and that hopefully the media are going to realize that they have to work with us to keep prices in line," says Green.

According to Saatchi, network



CPMs, which are projected to rise 8% in 1988, will rise only 6% in 1989. An even lower estimate comes from Smith Barney, Harris Upham & Co. While the securities firm concurs with Saatchi's 8% estimate for 1988, it says, "Declining viewing and growing competition will continue to affect network advertising in 1989. Furthermore, if economic conditions weaken, network advertising would come under further pressure. Thus, without the benefit of the Olympics, it seems unlikely that network advertising will increase over 1988; rather, it could decline as it did in 1985."

That view is echoed by Bozell, Jacobs, Kenyon & Eckhardt. "We are probably looking at somewhere in the area of flat to 3-4% growth in prime-time and the strong possibility of roll-backs in daytime," explains the agency's executive vice president and national media director, Mike Drexler. "I wouldn't be surprised if we saw a situation like in 1985 where there were even price roll-backs in prime time."

Naturally, the networks are quick to dispute that scenario. NBC's Bob Blackmore nixes the "quadrennial correction" theory, although he concedes that there will likely be "$600 million to $1 billion" in 1988 Olympics and election dollars that "won't necessarily make it over to the other side." Still, Blackmore claims demand for network prime time will be just as strong as last year.

Warner-Lambert's Hinton concurs with Blackmore's estimate of the size of the prime-time upfront, noting that it will likely be about $3.2 billion. However, she notes that would suggest a flat marketplace. "I think people are a little more cautious about their approach in terms of their willingness to commit upfront dollars because of uncertainty over the economy, the tax [deduction for advertising spending] legislation that is going on in Congress."

One thing that fueled last year's marketplace was the switch over to people meters. As it showed audience levels going down, advertisers had to buy more units to meet their GRP goals. Although the situation was exaggerated by the change in methodology, the sharp audience decline took a significant amount of network gross rating points out of the marketplace. And when upfront demand proved stronger than most people expected, prices initially rose in the 20% range.

This year, despite the problems, industry observers say corporate interest in advertising is there, but that it must be met on their terms. "What we are hearing from outside and from our own internal reports is that there seems to be as much demand as last year," says Steve Grubbs, senior vice president and director of national television buying of BBDO. Furthermore, a survey of senior-level advertising directors conducted in March by Vitt Media International found confidence that the economy would hold steady. "The possibility of a recession within the next year appears remote to the vast majority of the nation's leading advertisers, and nearly half [47%] believe we will not see signs of a recession until 1989 or later," said the report.

Even McCann-Erickson's traditionally conservative Bob Coen hinted at an uptick in demand during his June media-outlook update. But the senior vice president and director of forecasting added an important caveat: "Advertisers are spending more heavily, but only if they get a bargain and only if it's a special event," he warned. Indeed, even though advertisers interest in tv seems to be there, there are plenty of other alternatives that could lure their dollars. Some of the beneficiaries are likely to be cable and syndication, where the writers' strike is sending record amounts of upfront business, and the fledgling unwired network business, which is expected to tally more than $100 million.

The situation is murkier at Fox Broadcasting, which is suffering heavy losses. Fox officials say they are committed to the network for at least the foreseeable future and project $120 million in upfront business this year versus $100 million last year. Fox will expand to a third night of prime-time programing this fall with a movie night, which could do well if the writers' strike continues. While some Fox shows, particularly its prized Sunday night lineup, will be affected by the lack of scripts, Fox has developed

## TOP 10 NETWORK TELEVISION ADVERTISERS—1987 FIRST QUARTER 1988

| ADVERTISER | 1987 | Jan/Mar 1987 | Jan/Mar 1988 | % Change |
|---|---|---|---|---|
| The Procter & Gamble Co. | $377,551,800 | $108,717,800 | $93,161,700 | −14 |
| Philip Morris Companies, Inc. | 331,936,200 | 77,312,000 | 69,258,900 | −10 |
| General Motors Corp. | 272,953,100 | 80,108,100 | 81,452,500 | +2 |
| Kellogg Co. | 238,016,900 | 41,763,700 | 60,986,000 | +46 |
| McDonald's Corp. | 216,067,400 | 42,902,600 | 45,161,300 | +5 |
| Unilever N.V. | 211,923,000 | 59,385,300 | 56,709,400 | −5 |
| RJR Nabisco, Inc. | 209,777,300 | 41,108,700 | 50,415,900 | +23 |
| Anheuser-Busch Companies Inc. | 186,947,700 | 47,076,600 | 57,751,400 | +23 |
| Johnson & Johnson | 181,998,900 | 55,371,200 | 41,008,700 | −26 |
| American Home Products Corp. | 181,499,400 | 55,893,900 | 49,026,700 | −12 |

*Source: Television Bureau of Advertising from Arbitron's Broadcast Advertisers Reports data*

several strike-proof series, including *America's Most Wanted* and *The Reporters, It's Gary Shandling's Show* and *Family Double Dare*.

"We see the writers' strike currently as a bit of an opportunity for us," says Fox senior vice president of sales Pat Mastandrea. Although a disappointing ratings performance, particularly on Saturday nights, has led Fox to lower household ratings projections by 15% for this season, Mastandrea notes that strong demographic performance is enabling them to raise their projections for key young demographics. As a result, Mastandrea claims Fox's ratings delivery will "net out even."

Although buyers are sympathetic to Fox's cause, they caution that they will not underwrite their start-up. "It's not that we don't want them to survive," explains Saatchi's Green, "but they have their business problems and we have ours. Everybody is in this business to survive, and the idea that we may underwrite a network's risks is not being greeted well by advertisers or their agencies."

Meanwhile, the syndication marketplace has been exploiting the tv writers' strike as well. Although several key syndicated shows, including Paramount's *Star Trek: The Next Generation*, are affected by it, others, especially game shows, are not. However, Brian Byrne, president of International Advertising Sales (IAS), notes that of the 66 hours the networks will need to fill their prime-time schedules next year, only 10.5 hours are exempt from the writers' strike. Moreover, Byrne, who is also president of Advertiser Syndicated Television Association, claims, "The primary beneficiary of any network erosion will be the independent stations that primarily use barter syndication as their programing source."

Actually, the writers' strike is expected to take its toll on network affiliations, with many affiliates expected to preempt network reruns with first-run syndication. However, buyers warn that there is a tiering effect in syndication with about a handful of the top shows commanding the only really competitive ratings to the networks.

"Those syndicated shows that are successful will do well, but there's a whole stable out there that will not," says Ayer's Igiel. "So, what do you do? If you think you're better off buying a two-rated show in syndication, buy it. I don't want to denigrate syndication, but it's not an automatic given that syndication is the place to go because network tv may not work." Adds Thomas Winner, executive vice president/media director of Campbell-Mithun-Esty in New York, "Even if a network repeat does a 10 rating, it's still bigger than you can get anywhere else."

**A recession appears remote to the majority of leading national advertisers.**

In terms of syndication costs, Saatchi estimates CPMs, which are projected to rise about 4% in 1988, will also rise about 4% in 1989. IAS's Byrne is more coy, saying only CPMs "will be up." Citing additional syndicated inventory, he added that total barter syndication revenues would rise 12-13% and break the $1 billion mark for the first time in 1989.

Despite much controversy, unwired television networks appear to be emerging as a significant player in the national tv scene. Several highly touted deals were struck by station rep firms during the heat of last year's upfront, but buyers say their continued success will depend on network-tv costs, since they are bought solely as an alternative to escalating network CPMs.

Katz Communications, which negotiated a highly publicized deal between Procter & Gamble and its station clients, says it is targeting $25-30 million in unwired business. But Katz president Peter Goulazian says that goal is dependent on the strength of the network and syndication marketplaces. Others, however, believe the rep firms will pull out of the unwired network business because it is detrimental to their stations' spot business.

Mike Kammerer, president of the Independent Television Network (ITN), says the "repworks" are "just a cheaper way of buying spot." ITN, on the other hand, by buying time from independent stations and selling it in

**TOP TEN NATIONAL AND REGIONAL SPOT TELEVISION ADVERTISERS—1987** **FIRST QUARTER 1988**

| ADVERTISER | 1987 | Jan/Mar 1987 | Jan/Mar 1988 | % Change |
|---|---|---|---|---|
| General Motors Corp. | $258,562,800 | $60,792,300 | $77,551,500 | +28 |
| The Procter & Gamble Co. | 238,297,600 | 39,344,500 | 63,469,300 | +61 |
| Ford Motor Co. | 138,524,000 | 31,318,400 | 37,916,300 | +21 |
| General Mills, Inc. | 126,687,500 | 28,724,000 | 32,993,000 | +15 |
| PepsiCo, Inc. | 121,201,200 | 20,461,400 | 25,804,100 | +26 |
| Toyota Motor Sales Co., Ltd. | 114,336,100 | 25,050,400 | 23,531,400 | −6 |
| Philip Morris Companies, Inc. | 111,287,500 | 22,433,800 | 18,441,300 | −18 |
| Chrysler Corp. | 109,833,300 | 25,775,300 | 31,259,400 | +21 |
| Nissan Motor Co., Ltd. | 94,882,500 | 29,924,600 | 15,515,000 | −47 |
| Anheuser-Busch Companies | 74,684,000 | 12,147,200 | 11,231,200 | −8 |

*Source: Television Bureau of Advertising from Arbitron's Broadcast Advertisers Reports data*

network-type packages to national advertisers, takes inventory out of the spot marketplace and brings dollars in from national advertisers. He says ITN plans to do about $100 million in unwired-network business in 1989, with about half coming from prime time and the rest from other dayparts. He admits the costs of unwired network deals are tied directly to network CPMs, noting, "If the networks are flat, we will be flat. If the networks are up 8%, we're probably going to be up 10%."

**SPOT**

Despite a relatively strong first quarter, strength in the spot-television marketplace has failed to materialize to the degree that media pundits had predicted for a quadrennial Olympics/election year. The ABC stations naturally benefitted in the first quarter from the network's Olympics coverage, but the political primaries failed to generate significant local political dollars for tv stations and some question whether they will be there in the fourth quarter during the general election.

"It's been a tough year for a lot of stations," reports Saatchi's Peggy Green. "I don't think the politicals are going to bring in the money that people thought they would," she predicts.

Katz's Goulazian, on the other hand, predicts a "strong last five months" will lead to overall 1988 increases of 9-10% for the spot business. Blair Television, however, has revised its 1988 estimates down slightly from its original estimates of 9-11%, says senior vice president and general sales manager Bill Breda. "We are not going to see the double-digit increases we had expected," he explains, noting that Blair now predicts 1988 business will rise 7-9%.

Saatchi media-cost estimates indicated that spot CPMs will rise about 8% for 1988 and less than 5% for 1989. Blair's Breda predicts 1989 spot CPMs will "hold to about where we are today."

However, some predict 1989 may even be worse for the spot business. "It's going to be worse because there is going to be no Olympics or election dollars in 1989, and those were by and large additional dollars," explains D'Arcy Masius Benton & Bowles senior vice president and director of spot broadcast Sharron Lalik. "We also see that all the retail mergers and subsequent laying-off of employees will affect their advertising. Obviously, they are not going to be running out there and spending money." Except for some strength from local sales on the West Coast, Lalik says local spot is flat.

Moreover, Saatchi's Green says stations are being doubly hurt by their policy of not accepting :15s. "Fifteens have hurt the local stations because the network, syndicators and cable are selling the units at 50% of the cost of a :30. Why would you want to pay a premium in spot?" She also notes that :15s are becoming a more strategic part of advertisers' creative mix and that stations inhibiting the use of :15s are shooting themselves in the feet. ■

## A CONVERSATION WITH LARRY COLE

*Larry Cole is senior vice president/head of media of Ogilvy & Mather.*

**On the television marketplace:** There are two issues: the impact of the network alternatives and the size of the demand. In prior years, there was much more emphasis placed on demand, and the alternatives were not a major factor. What's happening now is that there suddenly are two factors that can have a very significant impact, which makes projections a little more difficult.

**On the impact of the Olympics:** It may or may not be an important factor. Let's face it, not every advertiser is in the Olympics. It doesn't take up 100% of the budget. Advertisers have more money in other media. It's a complication, but there are many arguments against that being a significant factor.

**On network-marketing programs:** I think there is potential for a lot of new business going into network television. In terms of effectiveness of the medium in regard to zapping and zipping and the press, network tv has taken more than its fair share of criticism. We believe, however, that the kind of effectiveness criticisms leveled at network tv can go for every other medium. People don't always seek out all the advertising or read every ad in every newspaper and magazine. So we think that the networks are still the most powerful medium. It's just been under a bigger microscope.

**On the spot tv business:** We are looking at a softer marketplace for the foreseeable future. Other than a few isolated markets, I haven't heard anybody concerned about the escalation of spot prices.

# BOOM TIME

## Will the hype and statistics make this cable's banner year?

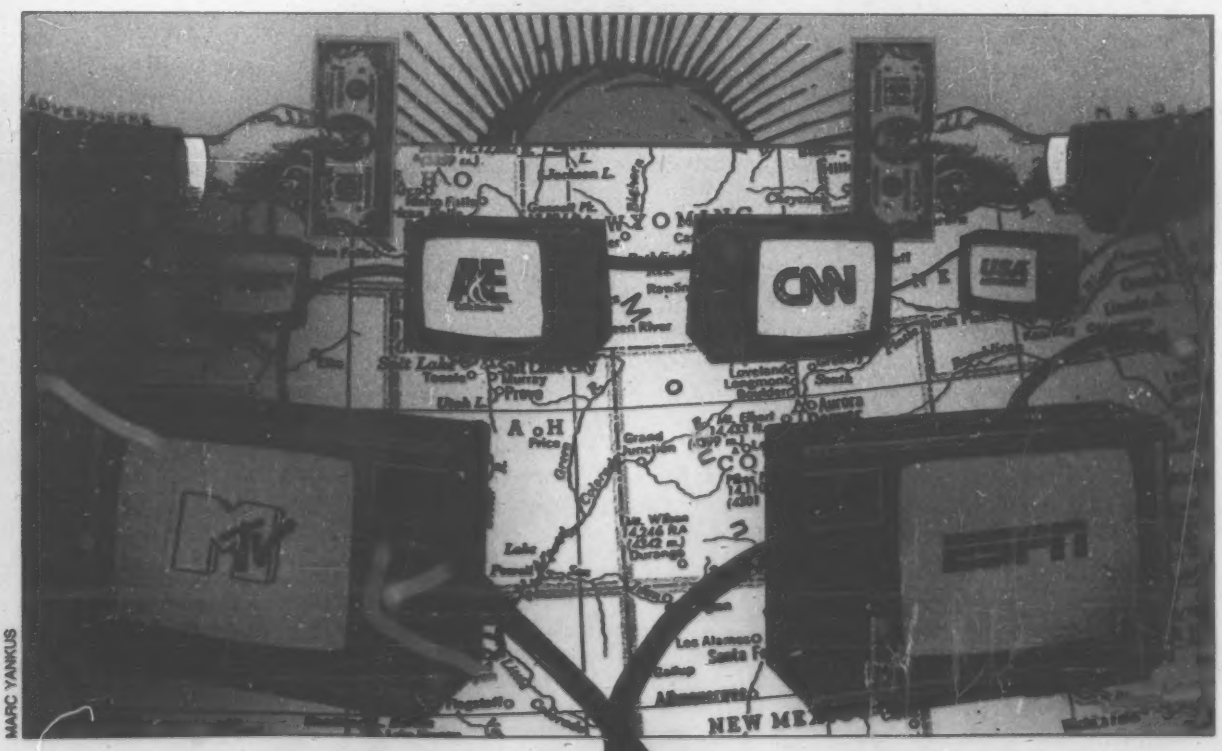
*by Joe Mandese*

Pity poor Farrell Reynolds. As president of Turner Broadcasting Sales, Reynolds and his colleagues at SuperStation TBS and CNN have struggled against the odds to increase Turner Broadcasting's share of national ad budgets, only to be greeted at the end of each fiscal year by Turner's obligatory edict: "Bring in more ad dollars."

After so many years of accomplishing the impossible, Reynolds and his sales brethren might have breathed easy this 1988-89 season due to a great selling opportunity: the writers' strike. Armed with briefcases of gushing press clippings about cable's recent gains, cable salespeople are aggressively exploiting advertisers' uncertainty about network tv's performance this fall due to the strike. "They're really feeling their oats," observes Foote, Cone & Belding vice president/associate national broadcast director Jim Cunningham, noting that sales reps are asking for significant double-digit CPM increases for cable. In fact, "They're becoming cocky," grouses Lintas:USA vice president/network and new technologies Suzanne Shawn.

But just when cable's path seems clear to some serious national ad dollars, Reynold's boss Ted Turner decides to launch a brand new cable network, TNT, flooding the marketplace with plenty of new cable advertising avails. And so it goes.

But the cable sales business has




MARC YANKUS

never been one for the faint-hearted, and this new challenge may help all the sellers' cause in the long run — to the buyer's dismay. To entice cable-system operators to carry the fledgling network, TBS is giving local cable operators an unprecedented four minutes per hour of local ad avails. (The norm is two.) Besides making the network more attractive to cable systems, the move will diminish TNT's national ad inventory by 15%-20%, according to cable marketing specialist Jack Myers, president of Jack Myers Marketing Communications.

Moreover, Myers believes that Turner may soon switch CNN to a similar ad split and that other cable nets may be forced to follow suit. "If Turner follows suit with CNN and it forces the hands of other networks, it could begin having a major impact" in terms of inventory, explains Myers. "You really wouldn't need all of the networks doing that, just the leaders."

While TBS' Reynolds concedes the concept has merit, he says changing CNN's ad split has "not been posed to us yet." However, he adds, "Even the most uninterested observer could come along and say, 'Gee, why don't these cable networks give the local operators more inventory and tighten up their overall inventory situation.' When you're dealing in a supply-and-demand situation and the demand is static and you decrease the supply, prices are going to go up."

Even with an abundance of inventory, cable sales executives are using a combination of statistics and hyperbole to exploit the tv-writers' strike to their benefit. In fact, cable and ad agency sources confirm that cable has generated its biggest upfront season ever, although the agency executives say the deals were mostly for the premium cable shows. With a few exceptions, the cable nets remain saturated with surplus inventory.

"I don't see advertisers running in droves to cable because of the writers' strike, but I do see it affecting the marketplace a little bit," observes Lintas' Shawn, who says that despite some double-digit increases for premium programs like ESPN's NFL coverage, overall cable CPMs are likely to rise only in the low single-digits. "Cable, for the most part, follows in the networks' footsteps," says Shawn, citing predictions for a soft broadcast marketplace. "You usually don't find a soft network marketplace and a real tight cable marketplace."

"Right now, cable is the hot button," concurs Peggy Green, executive vice president of Saatchi & Saatchi DFS Compton. "The cable networks are being very aggressive in the CPMs they want, but I think a major agency will resist that just the way they resist the broadcast networks. Besides, to combat an aggressive cable marketplace, we've got a network marketplace that seems to be striking a favorable posture."

According to Saatchi projections, cable CPMs are expected to rise only 4% each year from 1988 to 1990. While most agency buyers agree with that conservative projection, Jack Myers projects cable CPMs will grow about 12% in 1989.

Although Myers may be a little optimistic, agency executives admit it is getting harder to say no to cable deals. "Cable is a hot topic these days," observes William Esty senior vice president/media director Tom Winner. "It's becoming hard to go to a client and not talk about cable. They look at you cross-eyed because they read so much about it." As a result, Winner says 1989 may be the year that cable networks "extract some meaningful price increases on a CPM basis. They've been so low for so long that I think they sense that this is the year they might be able to get 5%, 6%, 7% maybe even 8% more."

Of course, much of cable's fortunes depend on those of the broadcast networks. TBS' Reynolds has been pointing out to advertisers that during the last tv writers' strike in 1981, network audiences dropped 6%. "And that's when cable was not really a factor."

According to cable industry consultant Paul Kagan & Associates, the writers' strike could lower viewing of the three broadcast networks by a full share point, which would be worth approximately $50 million in ad revenues for the 1988-89 season.

But cable's leading selling point is also its main problem, according to Saatchi senior vice president Betsy Frank. "It is clear that broadcast net-

## TOP-TEN CABLE ADVERTISING CATEGORIES

| Industry Class | 1987 Cable Dollars (000) | FIRST QUARTER Jan./Mar. 1987 | Jan./Mar. 1988 | % Change |
|---|---|---|---|---|
| 1. Beer & Ale | 31,263.7 | 6,259.0 | 7,062.8 | +12.8 |
| 2. Magazines/Newspapers/Other Media | 30,713.7 | 7,752.0 | 10,195.8 | +31.5 |
| 3. Candy & Gum | 24,242.6 | 8,001.9 | 5,611.7 | −29.9 |
| 4. Restaurants & Drive-ins | 17,186.5 | 1,890.6 | 1,515.2 | −19.9 |
| 5. Audio/video recordings | 15,381.3 | 2,704.2 | 3,743.4 | +38.4 |
| 6. Imported Passenger Cars | 15,346.0 | 3,533.0 | 4,724.1 | +33.7 |
| 7. Games, Toys & Hobbycraft | 10,946.5 | 1,856.1 | 1,246.1 | −32.9 |
| 8. Shampoos & Rinses | 10,863.2 | 2,414.4 | 2,984.7 | +23.6 |
| 9. Financial planning services | 10,556.8 | 2,196.0 | 4,644.5 | +111.5 |
| 10. Carbonated Soft Drinks | 9,933.0 | 1,988.1 | 1,803.8 | −9.3 |

*Source: Arbitron's Broadcast Advertisers Reports*

work ratings are going to be in general lower, but a lower network rating might be a 12 or a 14 and a good cable rating is still only a 1.5 — and that is in their own universe — so we're down to a 0.8 national rating. I think we need to be realistic about just how much of a benefit the writers' strike can be."

Meanwhile, despite much bally-hoo about cable's recent programing coups, relatively little of it is original. And while fresh off-network series are better than the older fare cable has been running, Saatchi's Frank puts cable's programing "advantage" in perspective: "Do you want to watch *Murder, She Wrote* reruns on CBS or on USA? Do you want to watch *Miami Vice* reruns on NBC or on USA?"

Still, cable's unique economic structure puts it in a much better position to weather — and even grow in — an economic storm, should it hit the tv business next season. "Economically, you've got a situation in which the broadcast networks have a single-source revenue stream, which is advertising and you're paying compensation to your affiliates," notes Jack Myers. "But cable has a dual revenue stream from advertisers and from systems operators. The cable industry is far more economically sound when it comes to funding availability for program development."

According to Paul Kagan's *Cable TV Programing* newsletter, cable systems' licensing fees to cable networks have increased from 20% of the average cable network's net revenues in 1984 to 37% in 1988. Those fees, Kagan adds, are the "secret of cable's growing programing power." As a result, cable networks have been willing to pour more of their revenues into acquiring and developing new and better programing. According to Kagan, program expenses as a percentage of the average cable network's total expenses is now about 66%, compared to only about 50% for the average tv station.

Moreover, cable networks benefit indirectly from the extreme profitability of their cable-system affiliates. According to Cabletelevision Advertising Bureau president Bob Alter, about "75-80¢ of every dollar" goes to the bottom line after a cable system amortizes the cost of wiring.

Cable's strong position has produced a cloud or two, most notably from legislators who are beginning to feel the time has come to control the medium's relatively free hand in conducting its business. Syndication-exclusivity (syndex) rules and other moves, however, are unlikely to have any impact in the year ahead.

What all this means is that even without large CPM increases in 1989, cable can continue to grow and build a better program base to compete.

"We don't want to institutionalize the low CPM, but we can thrive with it," says Alter. "That doesn't mean we don't want, or deserve, better." ■

## A CONVERSATION WITH GEORGE HAYES

*George Hayes is senior vice president/group media director of McCann-Erickson.*

**On the writers' strike:** "It may end up bringing more people into cable, but I think part of that may be ameliorated by the Olympics. They're going to lose some of the audience that they would have gotten in September to the Olympics, but in October, when people might normally be tuning in to check out the new network shows, cable may be able to get some of the viewership.

**On the cable hype:** It's almost a self-fulfilling prophecy, because the more aware advertisers are of cable tv as a medium and the more it appears to be a bigger medium, then the more likely it is that they will get in on it. What we are facing now is a situation where people who may have been on the fence about cable, or may not have used it in a big way, will probably get into it more heavily than they have been.

**On cable's CPM growth:** "One of the advantages of cable has always been that the CPMs have been extremely competitive with broadcast. While they didn't offer big numbers they would often offer some pretty good targets, or at least some pretty strong efficiencies. I think that is something they are still going to have to live with. There may be some opportunity for them to raise it a little bit, but you have to remember that cable as a whole still consists of a lot of pairs and the addition of TNT, for instance, into the cable universe may help keep prices down to some degree.

**On the economy:** "I think the biggest thing that will effect cable pricing is the economy. Whether or not the economy is as robust could be the biggest factor in determining pricing. Right now, I think there is a little nervousness out there and if budgets turn out not to be so strong, there just may not be as much money out there for cable to create. So even though cable may have some pretty good increases, they may not be able to raise their CPMs significantly.

# BAD RECEPTION

## That's what radio sellers can expect for any big plans to raise rates.

*by David Kalish*

The post-rush-hour calm of early evening descends over Long Island, New York's Bellmore train station. But inside the neighboring taxi depot, a radio advertiser's nightmare unfolds: For the third time in 10 minutes, a bored taxi dispatcher turns his boom-box dial, desperately searching for a song he hasn't already heard. The garbled radio sounds betray his frustration as he flips past dozens of stations with sound-alike formats.

It's a situation that gives radio advertisers the chills. With more and more stations in the same markets offering clone-like programing, call-letter loyalists have become increasingly rare. The diminishing quality and quantity of the radio audience, experts say, is forcing some stations in glutted markets to swallow a bitter pill: lower advertising rates.

In such markets, "more radio stations get in on a buy," says Jeff Wakefield, senior vice president of marketing and research at Major Market Radio, which sells air time for about 40% of U.S. radio stations. "All are willing to acquiesce to a lower cost per point" to hopefully get a bigger piece of the ad pie.

Carl Butrum, president of sales-rep firm Eastman Radio, sums up the scene: "There's a continuing growth of radio stations in the hands of amateurs."

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This situation will most likely contribute to a stagnant radio market in the year ahead, despite some modest 3-5% rate increases expected elsewhere in Radioland. Network-radio revenues remained essentially flat at $371 million in 1987, according to the Radio Networks Association (RNA), and are not expected to rise more than 4-5% this year. Spot-radio revenues slid $18 million to $1.315 billion in 1987 — "1987 was probably the worst in 10 years for national spot radio," Wakefield acknowledges — with ad dollars continuing their poor performance in the first half of 1988.

Reduced ad budgets, however, took the biggest bite out of radio's growth.

Advertising categories leading the slide included telecommunications, skin-care products and financial firms stung by the stock-market collapse, media directors say. For its part, AT&T slashed network radio spending from $22.5 million in 1986 to roughly $15 million last year, RNA figures show. And the nation's top spot-radio spender, Anheuser-Busch, cut spending by $7 million to $43.5 million during the same period, according to the Radio Advertising Bureau. Except for an unexpected infusion of 1988 third-quarter ad dollars by General Motors, radio auto ads are generally flat.

"It's slow out there," says Jill Gordon, vice president and network program supervisor at DDB Needham in New York. "It's *very* slow, as a matter of fact."

It was not always so. As recently as the first half of 1987, network radio was hauling in the advertisers, bringing in healthy revenues for both stations and rep firms. Back then, budget-conscious advertisers were trimming ad dollars from other media while stepping up their investment in the audio airwaves, presumably to capitalize on radio's cost-efficient delivery of specific audiences.

Today that revenue success may finally be catching up to a humbled radio market. Explains Peter Harrington, network radio manager at BBDO in New York, "Double-digit increases just can't be sustained indefinitely."

Still, the rep firms once again are pointing to a variety of hopeful signs and projecting a stronger fourth quarter that they say will carry them into a more robust 1989. Eastman Radio, for one, reports ad dollars committed for the third quarter running 10% ahead of last year, with "future bookings looking pretty strong," says president Butrum.

What's more, many sellers expect television advertisers frustrated by the writers' strike to shift some of their ad dollars to radio. Still others hope that radio's immediacy will attract election-year politicians seeking to react quickly to opponents' hurled accusations. This could help spot radio in particular.

Figuring these upbeat signs, some ad-time sellers predict CPMs will rise around 5% this year. "I think we've probably bottomed out," says Wakefield. Still others go so far as to acknowledge that overall CPMs are closer to flat — yet they insist that's not bad progress considering the way things are going. "What we're not doing is going backwards," defends Steve Youlios, vice president of sales for CBS Radio Networks.

Some agency people question any industry optimism. "Everybody is hoping for that big fourth quarter," says Joanne Taub, vice president and assistant media director at Grey Advertising in New York. "I think that all stations are bullish. They are trying to meet quota."

Taub is far from alone in thinking sales reps are looking through rose-colored glasses. "A lot of advertising agencies were expecting spot radio rate increases in the 6-9% range. That estimate was predicated in anticipation of strength in local markets," says Janice Clements, executive vice president and director of media services at New York's Laurence, Charles, Free & Lawson. "I would say that, depending on the market and circumstances, rates are coming in under the 6% most people had estimated."

Of course, more than just the fourth quarter is at stake. Says Tami Meldrum, senior broadcast buyer at HDM in Los Angeles, "If fourth quarter dies in Los Angeles, there will be no increases in 1989, at least until the following fourth quarter."

Even more damning, media directors say the traditionally strong local radio markets — their revenues last year rose by nearly $300 million — may start to suffer due to an unexpected competitor: cable television. Media decision-makers report an increasing number of radio advertisers switching ad dollars over to local cable. Part of the reason is the cost for an ad spot on cable is comparable to that bought on radio, with the added advantage of visual impact.

Indeed, with more stations — and non-radio media like cable — competing for the same pools of listeners, many rate-card setters have been forced to lower their stations' cost per rating point (CPP). For example, the average CPP in St. Louis during last year's fourth quarter was $50, down from $60 a year earlier, according to Wakefield.

Many stations are scrambling to find ways other than sheer listener numbers to prop up proposed rate increases.

## RADIO'S TOP-TEN SPENDERS, 1987

| Network | Radio Advertising Expenditures (000) |
|---|---|
| 1. Sears Roebuck | $52,701 |
| 2. Warner-Lambert | 24,614 |
| 3. Procter & Gamble | 23,665 |
| 4. Anheuser-Busch | 23,456 |
| 5. Bayer AG | 20,221 |
| 6. Ford | 19,766 |
| 7. General Motors | 18,906 |
| 8. Tele Disc | 15,758 |
| 9. AT&T | 15,003 |
| 10. Campbell Soup | 14,763 |

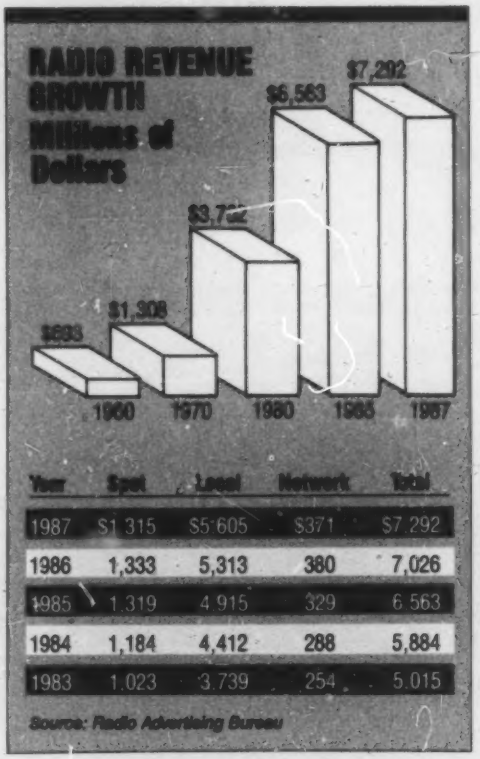
| Spot | |
|---|---|
| 1. Anheuser-Busch | $43,550 |
| 2. General Motors | 34,829 |
| 3. Philip Morris | 29,489 |
| 4. Sears Roebuck | 21,211 |
| 5. PepsiCo | 19,766 |
| 6. Delta Air Lines | 19,671 |
| 7. Southland | 18,317 |
| 8. Chrysler | 17,138 |
| 9. Pillsbury | 16,366 |
| 10. American Airlines | 16,106 |

Source: Radio Advertising Bureau

"We're seeing instances where, if we can show an added value — a personality, a station that's really strong, promotions, things beyond rate — we can justify a higher rate," Wakefield notes.

However, some agencies suspect that stations may be unfairly inflating advertising rates to help cover some of the debt that acquisition-hungry media conglomerates have incurred over the last year. "Debt service will affect advertising rates only to the extent that sales reps will use it as a tactic," cautions Clements. "There are very few cases where a station is a must-buy."

In their quest to bolster sagging ad revenues, radio conglomerates are offering discounts to advertisers who buy in bulk. It's not surprising. Today, in the wake of Westwood One's purchase of Mutual Broadcasting and NBC Radio Networks, there are just four major players controlling the lion's share of network stations: ABC, Westwood, United Stations and CBS Radio Networks. At the same time, the number of networks under each umbrella has multiplied. "From 1977-1987 there were about eight or nine additional networks. That means more inventory," says Peter Moore, president of the Radio Networks Association.




| Year | Spot | Local | Network | Total |
|---|---|---|---|---|
| 1987 | $1,315 | $5,605 | $371 | $7,292 |
| 1986 | 1,333 | 5,313 | 380 | 7,026 |
| 1985 | 1,319 | 4,915 | 329 | 6,563 |
| 1984 | 1,184 | 4,412 | 288 | 5,884 |
| 1983 | 1,023 | 3,739 | 254 | 5,015 |

Source: Radio Advertising Bureau

But the bulk offerings are getting a mixed reception: Media buyers caution the buy is not for everyone. "It's good for somebody who's really after a low cost per point, who's interested in tonnage," Harrington maintains.

For radio stations, the initiative to lure in more ad dollars comes none too soon. Stations' costs are up several percentage points so far this year, observers say, with hidden expenses decreasing bottom lines even more. Recent deals involving networks paying big bucks to woo celebrity radio hosts from rival networks may have dramatically raised the ante.

Also a cost factor is increasingly intensive research efforts. As part of their push to woo advertisers, more radio stations are delving into audience data bases to shore up arguments that their stations reach an indispensible market.

"Before we went in and said to the advertiser, 'This is [New York's] BLS listener,' " explains Frank Neill, vice president of marketing research at McGavren Guild Radio. "Now we can say, 'This is the profile of the Burger King listener and you should buy BLS because it matches the profile of the BLS listener.' "

Media people cast a skeptical eye at such efforts, insisting that who's saying something is just as important as what's being said. "You'd have to have your research department really evaluate the material," says Taub. "Just because somebody says something doesn't mean it's true." ■

## A CONVERSATION WITH JILL GORDON

*Jill Gordon is vice president/network program supervisor at DDB Needham, New York.*

**On fragmentation:** Because audiences are decreasing — and the population is increasing — it's driving down GRPs. But youth demos aren't having the same problems as the older markets, which are showing big increases in population.

**On the soft radio market:** There's nothing to think that it's going to turn around. I don't see any change in the advertisers.

**On networks' ad-package deals:** There's a lot of packaging going on that's keeping prices down . . . You're basically buying a bunch of networks. They offer advertisers lower rates, if you're willing to take not only the top stuff.

**On radio versus tv spending:** I usually find when tv gets tight, radio usually goes soft. Tv eats up the money . . . The writers' strike could technically help radio a little; there could be some spillover, but not to a great extent. It certainly won't hurt.

# MAKING ENDS MEET

## Magazine rates are on the table, and so are high bills for basic needs. Rates will rise, but they'll probably give more for the money.

*by Amy Alson*

Publishers feel that they are caught in a bind tighter than the spines enclosing their books. Magazine executives say the past year caught them unaware of how steeply basic costs would rise. Add the earnings some have had to give up at the rate-negotiating table this year, and you have a formula that can only mean one thing: higher ad rates for 1989.

*How* high is another story. As usual, where you stand on the issue has a lot to do with where you sit at that table. Our poll of media directors finds opinions averaging out to a modest 5% rise, while publishers aim much higher. On average, advertising rates could climb 7%-to-8% over 1988 rates.

Leo Scullin, senior vice president, director of new electronic and print media at Young & Rubicam, expects magazine ad rates to rise "no less than 4%, no more than 8%, basically to cover postage and paper cost increases."

In agreement is Jim Surmanek, senior vice president, executive media director, at J. Walter Thompson in Los Angeles, who says, "I don't think they'll be any padding on the part of publishers [to counter discounting] because they're in a competitive situation."

Saatchi & Saatchi DFS Compton meets Scullin in the middle. The agency estimates magazine advertisers this year are paying 6% more per-thousand than they did last year and that the average cost-per-thousand will rise 6% again next year. The agency predicts magazine-ad revenues will be up 6% in 1988, compared with an 8.5% gain for all major ad-media revenues. Saatchi then sees magazine ad-revenue gains slowing to 5% in 1989 to $9 billion, while all major-media revenues will rise 6.7%.

Some industry observers see problems ahead for magazine advertising. Alan J. Gottesman, media analyst at PaineWebber Inc., expects magazines to lose media dollars to the broadcast market starting late in 1989. In addition to this, "Publishers may have hurt themselves by adopting the practice of negotiating rates," he asserts.

Industry guru Robert J. Coen, senior vice president, director of forecasting

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at McCann-Erickson, agrees that "more ads are being bought, but the biggest gains are made by the magazines offering the best bargain prices." He forecasts an 8% gain in magazine ad revenues for 1988.

Then there's the sellers' point of view. Joe Cece, director of magazine development at Murdoch Magazines, says, "If ad rates rose 6% in 1988, I think we might see more like 9%-10% rate increases" for 1989.

The major cost factors that regularly drive magazine-publishing costs are postage and paper. Total magazine costs as a percentage of revenue actually fell in 1987, to 86.5% from 89%; pre-tax operating profits rose to 13.55% from 11.04% the year before, according to a recently released survey by Price Waterhouse for the Magazine Publishers of America (152 magazines responded versus 181 in 1986). But these gains were undone in 1988.

Publishers had anticipated a tight 1988, but the pinch hurt more than expected. The U.S. Postal Service had warned of an impending rate increase, and paper price hikes were expected since mills were running at full capacity. But paper rose more than anticipated, and smaller cost items such as ink also climbed unexpectedly. Even publishers who instituted cost-cutting measures for 1988 say that for 1989 they are forced to pass on higher costs and up their own prices. Advertisers may find small solace in the fact that readers will share the burden and pay more for magazines next year.

Paper prices are expected to rise again at the start of the year as well as next May and October. "I think the latter two increases may not materialize, [but] we have to be prepared for 10%" overall higher paper costs, says Dale Lang, managing partner of Working Woman/McCall's Group, a 50-50 joint venture with Time Inc. This past year, pricing for paper "was much worse than we thought it was going to be," says Reginald K. Brack, Jr., president of Time Inc.'s Magazine Group.

The paper used for most magazines, coated groundwood, is used in catalogs as well as in magazines. The American Paper Institute, a manufacturers' trade group, says, "Demand has been rather flat from the magazine industry, though it perked up somewhat at the end of last year and beginning of this year, as indicated by a turn up in ad pages." But demand from direct-mail marketers grew and drove up paper prices. On average, paper costs have risen 11% over the past year. Paper mills now being built will increase capacity and reduce cost pressures, but not before 1990.

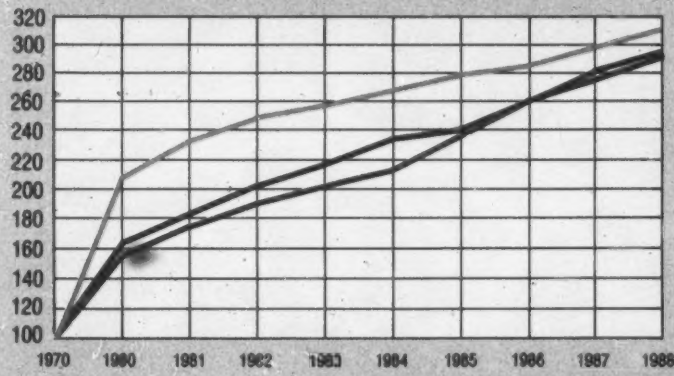
High postal rates could slow demand for paper in the year ahead, Lang suggests, and lower paper costs next year.

## BASIC DATA FOR CONSUMER MAGAZINES SELECTED YEARS 1970-1987

| | 1987 | 1986 | 1985 | 1984 | 1983 | 1980 | 1970 |
|---|---|---|---|---|---|---|---|
| Number, including farm publications | 1,880 | 1,793 | 1,805 | 1,751 | 1,639 | 1,456 | 1,197 |
| Advertising in major magazines | | | | | | | |
| Pages (per year) | 155,600 | 152,600 | 152,600 | 153,800 | 133,000 | 114,700 | 76,900 |
| Dollars (millions per year) | $5,390 | $5,120 | $4,920 | $4,668 | $3,939 | $2,846 | $1,169 |
| Circulation per issue | | | | | | | |
| ABC audited magazines (millions) | | | | | | | |
| Single copy | 79 | 78 | 81 | 82 | 83 | 91 | 70 |
| Subscription | 257 | 251 | 243 | 233 | 222 | 174 | 173 |
| Total | 336 | 329 | 324 | 315 | 305 | 265 | 243 |

*Source: James B. Kobak & Co.*

## CONSUMER MAGAZINE AD RATE INDEX




■ = Unit Rates
■ = CPM
■ = CPI

1970-1980 increases:
Unit = 56%
CPM = 62%
CPI = 112%

1980-1987 increases:
Unit = 88%
CPM = 80%
CPI = 48%

*Source: James B. Kobak & Co.*

Catalog mailers, who were especially hard hit by postage rate hikes this year, will trim their mailing lists, and magazine circulations may get cut back slightly. There will be less bonus circulation, and things like comp lists will get pruned.

While postage increases were no surprise, they were steep. Brack says, "The same postal rates that gave the public a 25¢ stamp gave publishers about a 19% increase in cost. Obviously, we can't raise ad rates 19%, but we are having to ask readers and advertisers to pay more."

Claeys Bahrenburg, executive vice president and group publisher at Hearst Corp.'s magazine division, adds, "It wouldn't suprise me if we see [price hikes] on both revenue streams."

At Meredith Corp.'s magazine unit, spokesman Craig Maltby says, "As far as postage, we're going to pass along [the increase] by raising prices" to readers as well as advertisers. The company has been testing newsstand sales incentives, which will be useful if cover prices rise.

In 1988, the average single-copy price of a magazine rose to $2.30 from $2.20, where it had been since 1986, estimates industry consultant James B. Kobak. And the average yearly subscription price inched up to $24.85 in 1988, from $24.45 in 1987 and $23.24 in 1986.

Cece of Murdoch says, "My guess is that there probably will be more price-testing by publishers this year than last year." For example, it's possible to raise circulation income by raising the basic subscription price or, more subtly by reducing the discount between basic and promotional subscriptions, which cost up to 50% less than basic price.

Readers of the "Seven Sisters" may be spared. "We constantly test what

## CONSUMER MAGAZINE SOURCES OF REVENUE

| | Advertising | Subscriptions | Single Copy |
|---|---|---|---|
| 1970 | 64.33% | 27.91% | 7.76% |
| 1980 | 51.14 | 32.67 | 16.19 |
| 1981 | 51.08 | 33.30 | 15.62 |
| 1982 | 50.19 | 33.32 | 16.49 |
| 1983 | 49.87 | 33.70 | 16.43 |
| 1984 | 51.91 | 32.97 | 15.12 |
| 1985 | 49.70 | 33.29 | 17.01 |
| 1986 | 50.40 | 33.60 | 16.00 |
| 1987 (est) | 50.08 | 33.60 | 16.32 |

*Source: James B. Kobak & Co.*

## A CONVERSATION WITH DAVID BUCKLEY

*David Buckley is vice president, media director, The Shalek Agency, Los Angeles.*

**On bargaining:** There isn't so much resistance to rate increases.

The magazines get so out of focus, but sometimes its the agency media departments' fault too. They set an agenda of talking about rates. Clients want to know, 'What kind of impact am I going to get?'

**On negotiating:** Magazines realize they have to do more than provide a simple ad page. I want to talk about merchandising, what extra ... they are making to add extra impact to my ad.

If we run in [a national] magazine, local dealers want to know what it does for them. Can we get demo tags, extra copies or must I wait out a three-month time [to see measurable results]?

It's not that we want this, but we need this . . . [Added-value options] offer more justification for spending my money in the book.

**On publishers' costs:** They can generalize about postage and paper, but they have got to justify their circulation, the quality of their readers. When publishers talk about advertisers bearing the burden of postage costs, well, postage is [insignificant] relative to overall costs in the creative unit.

**On creative's role in media-buying:** Clients are becoming much more sophisticated about this. GRPs, reach and frequency just don't make it anymore. . . We're talking about creative impact — not back of the book versus front of the book, but stretching the dollars we spend in the book.

the reader will pay for the magazine," says Dale Lang. "[We] can't miss the rate base." If consumers resist higher prices, "We may have to eat some of the [cost] increases." But he notes, "Most increases will be passed on to advertisers" in higher rates. He won't say how high.

"Last year there was no cost increase at all passed along to advertisers because of negotiations," Lang claims. "Publishers are getting very marginal prices for their pages. In tv, [costs were] passed on, and other magazines passed costs along, but the Seven Sisters didn't."

At Murdoch, Cece says postage increases will affect different magazines' costs very differently — ranging from +15% to +23%, depending on the ad-edit ratio, weight of book and distribution patterns. "A good contrast is *Elle* versus *New York*," he suggests. *Elle* is a heavy-weight, nationally-distributed magazine with a high ad-edit ratio; *New York* is a local book printed on lighter paper, with comparatively more editorial. *Elle*, therefore, will pay a higher postal rate than *New York*.

Raising prices and encouraging high-volume buys to pass along higher costs is a serviceable short-term solution. But publishers want to end their industry's costly dependency on the U.S. Postal Service. In fact, publishers are cooperatively exploring private distribution.

Time Inc.'s experience in 1988 reflects how rising basic costs have affected even cost-cutters in the industry this year, forcing prices up for 1989. Time implemented a cost-savings strategy to cut $85 million from its 1988 costs. And Brack asked "advertisers to use our magazines in more cost-efficient ways," as evidenced by a spate of single-advertiser special issues now, or soon to be, rolling off Time's presses. To increase its share of magazine advertising, Time became "more competitive," in Brack's words, which included the introduction of its corporate-volume incentive plan, dubbed Max Plan. The result in 1988 was "the lowest CPM increase in Time magazines' history."

However, "because of the fact that inflation is back," Brack adds, "it's unlikely that [Time will] have the lowest CPM increase in our history for a second year in a row." Yet 1989 ad rates won't alienate advertisers: "I would point out to any advertiser that [Time's long term goal is] to increase our share of a rather stagnant market. That means staying competitive." At press time, rate plans for the coming year were still in the planning stages.

Such an accommodating stance is typical in today's buyers' market. Most publishers hope to counter the effects of discounting by creating more ways to buy their magazines.

Meredith promotes packaging and merchandising incentives to lure advertisers, Maltby says. "We merchandise our combination of properties to the hilt . . . broadcast, books, list marketing, even the real-estate group if there's something we could do." Meanwhile, *Better Homes and Gardens*' rates go up 6.75% with the November 1988 issue, and Meredith's *Midwest Living*'s ad rates and base both rise for an 8% net increase in CPM, effective January.

For media buyers, this environment is a veritable field day. Now, JWT's Surmanek says, "When it comes down to negotiations, there will be a heightened awareness of the need to negotiate positioning and merchandising as well [as rates]." Paul Du Charme, vice president, director of print media at Grey Advertising Inc., and head of its negotiating team, says "Rates aren't necessarily the issue" on the table. In fact, he says, "I don't think the Seven Sisters can discount any further . . . Their focus is not so much on rates as on asking what else they can give the client," be it merchandising or multimedia buys.

The business books and newsweeklies offer "Max Plan and the Max Plan clones," Du Charme says. And though publishers deny it, he maintains, "Within those groups, there are individual groups that will negotiate rates depending on how competitive a book it is and how important the [ad] category is to the book."

Du Charme notes, "One negotiating tool that seems to work for both publishers and advertisers is the 'one-time-only,' something that can't be duplicated, at special rates, like an advertorial." Again, it doesn't directly

**MAGAZINE ADVERTISING RATE INCREASES COMPARED TO OTHER MEDIA COST PER THOUSAND**

| | 1970-1980 | 1980-1987 | 1970-1987 |
|---|---|---|---|
| Consumer magazines | 56% | 62% | 178% |
| Business magazines | 28 | 91 | 145 |
| Day net tv | 77 | 68 | 197 |
| Eve net tv | 67 | 137 | 296 |
| Newspapers | 75 | 103 | 255 |
| Supplements | 48 | 81 | 168 |
| Net radio | 8 | 75 | 89 |
| Outdoor | 53 | 138 | 264 |
| Consumer Price Index | 112 | 48 | 213 |

*Source: James B. Kobak & Co.*

affect ad rates, and it's more flexible for the publisher. "Most are easy concepts. Inserts are tremendous right now, especially supplied inserts for which the media space is negotiable since it doesn't cost anything to the publisher."

Steven I. Naftelberg, senior vice president, director of media services at DCA Advertising Inc., says a growing number of business-oriented consumer magazines are now trying to give advertisers more buying options. "That puts more pressure on the larger-circulation books to maintain or put minimum increases on their rate structures." For example, he cites, "A newsweekly came to us and said, 'Our rate increase is 3.6%, but commit to six pages and we'll cover you' — which means keep the rate constant — 'for all of your client's major categories.'"

Naftelberg adds, "We — the dollars they're chasing — are in a better position because our options have expanded."

But because of the postage and paper hikes, "I don't think many can do what Time did last year — hold the line," says Scullin of Y&R. "I think cover prices can go up, that's fine, but what they really have to do is improve the net per copy served by renewers.

"It's been a decent year in ad pages — and it should have been, because of the quadrennial," Scullin goes on to say, noting that publishers typically treat that extraordinary page gain from Olympics and election advertising as real growth and use it to justify rate hikes. But this year, "I think they'll stay pretty close to their vests."

And Jim Surmanek at J. Walter Thompson in Los Angeles speculates that magazines may benefit from an extraordinary surge of business in the fall. "Because of the writers' strike and the delay in the new [network television] seasons, magazines, and particularly weekly magazines, might see an influx of new advertisers who have not spent all [their money on broadcast]. Why just buy more frequency on tv for reruns?" Surmanek asks. "Print never has reruns." ■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3. Include cabbage, broccoli, brussels sprouts, kohlrabi and cauliflower.
4. Be moderate in consumption of salt-cured, smoked, and nitrite-cured foods.
5. Cut down on total fat intake from animal sources and fats and oils.
6. Avoid obesity.
7. Be moderate in consumption of alcoholic beverages.

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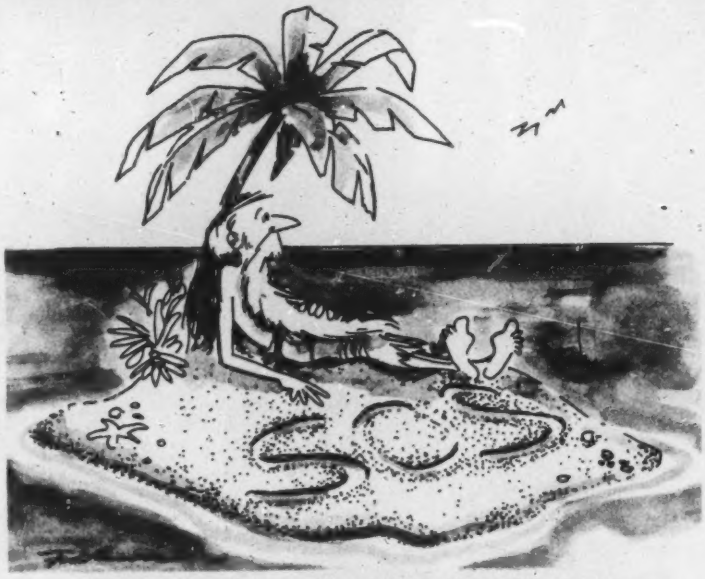

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The Orange County Register is the nation's #2 newspaper in total, full-run advertising.
(Media Records, year-end rankings, 1987)

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METROGROUP

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# TRADING UP

## It's risky business for the business press.

*by Fred Pfaff*

The dog days of August feel a little hotter than usual to those in the business-press industry. Trade publishers are sweating through a period of markedly higher costs at the same time advertisers are demanding more rate deals and merchandising packages. Meetings at some major publishing companies this spring pitted advertising types pushing for moderate increases against operations pros lobbying for double-digit hikes. The reality, publishers think, is rates will rise 8-9%, on average.

"If that happens, they'll be cutting off their noses," reacts Charles Gade, a BBDO vice president and associate media director who's been braced for 6% increases. "Budgets haven't kept pace with inflation or with rate increases in the last few years, and advertisers are digging their heels in more than ever — they won't pay upwards of 10%."

According to Gade's read of the situation, "A magazine will have to offer a lot more than a page to justify a 10% hike. If not, magazines will be dropped from schedules or the number of insertions will be cut or," he warns, "there will be heavy negotiating to bring the cost of a schedule back within reason." Gade's own game plan is to push for a price per schedule — a minimum of six pages is his rule — not per page, expecting that "publishers will kick and scream, then give in and cry all the way to the bank."

However, despite Gade's public saber rattling, there is general recognition that publishing costs are rising — postage and paper are both up substantially — and also that some of the alternatives such as consumer media and direct marketing may not be cost-effective. "I'd like to say publishers should hold the line on rates, but they just can't," admits Bill Hebel, vice president and account media director at J. Walter Thompson/Chicago. "For the specialized audiences we're trying to reach, I don't know how any medium can compete with trade publications, which are very inexpensive and

MARC YANKUS

targeted to specific readers. We know these specialists are reading and watching other media, but those are still a ton more expensive than the trades."

For their part, publishers insist that ad-cost increases are justified. "The underlying cost increases over the last 12 months have been horrendous," says Phillip Meek, president of Fairchild Publications and president of the publishing division of Capital Cities/ABC. He points to changes in second-class postage rates, which sent mailing costs flying upward of 18%. Meanwhile, food companies are buying reams of paper for use in microwave-food packaging, helping to deplete the supplies at paper mills. Indeed, First Boston Corp. director Kevin Gruneich is figuring in a summer price increase to leave the cost of number-five coated lightweight groundwood (the paper most trade publishers use) 22% higher than a year ago.

One place publishers might look to cut some costs, suggests publishing consultant Shirrel Rhoades, is in printing. "Publishers are going to have to scramble to pound out better deals with their suppliers," he says. But Meek points out that many of those suppliers are strapped themselves, so a better bet might be to invest printing dollars in desktop publishing equipment, "something you'll see a lot more of in the next few years," he predicts.

The sooner, the better, say planners, who are tired of paying more to solve someone else's cost problems. They say they'll be scouring audit sheets this fall. "I'm going to hold all of my publications accountable," proclaims David Buckley, vice president and media director at the Shalek Agency in Los Angeles. When one publisher called on the agency in January with a higher rate for a shrinking circulation, Buckley showed him the door. "If my post-buy analysis shows they're not delivering more," Buckley warns, "I'm not going to pay the increases."

Yet circulation — especially for those with a controlled readership — has become a major cost headache for much of the business press. Keeping lists current, not to mention adding new qualified circulation, has become particularly onerous as the wave of mergers and acquisitions continues to crash over corporate America and either changes or washes away titles and positions. Some publishers have been trying to shore up circulation through telemarketing, but Shirrel Rhoades believes most magazines will return to direct-mail solicitation. Since their competitors are hammering away at their circulations, Rhoades notes, many publishers will have no choice but to bear even higher postage increases.

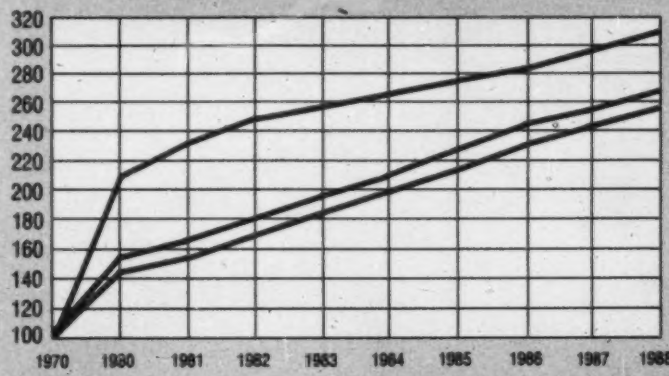
Publishers are starting to put the squeeze on their staffs, and some planners are worried about the consequences. For years, planners have called on publishers to absorb more of their rising costs. The assumption is that trades maintain high profit margins — "They'd make a killing charging half price," quips one media director — and of course that every company can run leaner.

## BASIC DATA FOR BUSINESS PUBLICATIONS
### Selected Years 1970-1987

| | 1987 | 1986 | 1985 | 1984 | 1983 | 1980 | 1970 |
|---|---|---|---|---|---|---|---|
| Number, including farm publications | 3,883 | 354 | 3,486 | 3,212 | 3,039 | 2,650 | 2,376 |
| Advertising in major magazines | | | | | | | |
| Pages (000) | 1,845 | 1,820 | 1,811 | 1,775 | 1,705 | 1,700 | 1,093 |
| Dollars (millions) | $3,500 | $3,250 | $3,021 | $2,850 | $2,470 | $1,925 | $836 |
| Circulation per issue (millions) | 72 | 72 | 72 | 72 | 72 | 66.8 | 62.3 |

Source: James B. Kobak & Co.

## BUSINESS MAGAZINE AD RATE INDEX




■ = Unit Rates
■ = Cost Per Thousand
■ = Consumer Price Index

1970-1980 increases:
Unit = 57%
CPM = 48%
CPI = 112%

1980-1987 increases:
Unit = 71%
CPM = 74%
CPI = 48%

Source: James B. Kobak & Co.

But margins have been shrinking. "The whole trade-margin issue is overstated," argues Phillip Meek. "During the 1970s, people discovered what a hell of a business trade publishing could be, and the number of companies and books in any given field mushroomed. Now competition is putting tremendous pressure on margins." The reality, estimates Dan Sember, president of MacLean Hunter, is that most magazines average about 12% pretax.

Over the last year or so, MacLean Hunter, like many trade publishers, has passed on more of its exploding healthcare costs to employees, switching to plans with higher deductibles and second-opinion restrictions while asking employees to cover half the premiums. As for staff cuts, Sember says, "Most publishers made cost cuts in the early 1980s when the recession hit. This is a labor-intensive business, and there's really not much more they can do."

Cutting away at the heart of a trade magazine — the editorial department — may be counter-productive anyway. For magazines whose value is insight into businesses, a short-staffed edit department, or one constantly stocked with young, green reporters, will only make the book less important to readers, and therefore advertisers.

Despite the real price increases, planners believe many publisher cries are overwrought. Planners say they're already disregarding the posted rates in whole categories of magazines, so on-card hikes may mean nothing. "Number-two books and below are just dropping their drawers for us to get on schedules," says JWT's Bill Hebel.

That's opening up a new wave of thinking about schedule consolidation, which used to bring more business to category leaders. "You're no longer locked into buying the first book in a category," adds BBDO's Gade. "In most cases, a strong schedule in the number-two and three books really won't hurt an advertiser. In 1989, more people will be buying the number two and three publications that are willing to work with them."

You won't find Fergus O'Daly cheering, though. The chief executive officer of Poppe-Tyson fears "that leaves the leaders — the ones doing the best job — without the money they need to keep their editors really cracking, and the quality will go down. Ad-

## A CONVERSATION WITH ROY MINSTER

*Roy Minster is media director of Hammond Farrell Inc.*

**On then and now:** In the trade press, because budgets are generally modest and, therefore advertising clout is diminished, publishers were able for years to maintain their independence. It was in their interest not to seek sophisticated syndicated research. In reality, funds for syndicated research were never really available. The best we had were audits and self-serving reader preference studies to somehow justify the rates. The buying procedure, in the past often involved the simple task of multiplying by 12, whatever, and the buyer would tell the salesman the plan is executed, and the salesman would happily punch up the order. Today, the business-industrial press can no longer merely rely on a simple-sell based on a rate card. Furthermore, in today's economy, publishers who come in with 8% increases are asking for severe resistance. Now publishers are increasingly offering buyers a menu of 'added values.'

**On the buying climate:** I don't expect to find any Holy Grail, any unique device we can use to help us improve our selection process in 1989. Today, more and more buyers, particulary those in media-buying services, are used to the media marketplace being fractionalized. This is good news for the business-industrial press which is extremely segmented. Although the trade press is extremely fractionalized, planners and buyers are disciplined in dealing with segmented media such as broadcast (cable), and they should be able to cope with the variety of market opportunities offered by the trade press. My guess is, that means the media planner/buyer in the 1990s will become more and more a generalist, similar to what existed 20 years ago.

**On rate-cutting:** Trade publishing is a cash-flow business. Publishers concentrate on revenues in the immediate months ahead and even advertisers and agencies are concerned with the short term. Therefore the buyer must obtain 'extra value' that is built into the negotiated price to provide advertisers with a more meaningful package as opposed to a simple 'price cut' or 'off-card deal.'

**On merchandising:** Publishers would be wise to keep up those incentives. They're another way of appearing to do something about costs, and it costs them nothing. They win no matter how the dimes fall. Planners are best served by being very specific. Design your own value-added and seeing who comes along to match it and satisfy it.

vertisers forget that American industry has a quasi-contract with the trade press, and a $50,000 discount only diminishes a valuable communicator."

It may also hurt agencies. "In consumer magazines, you have much larger budgets and many fewer people per million dollars on each account," says O'Daly. "If you have three people on a $10-25 million consumer account, you'd need 25 on a business-to-business account that size. And the medium itself isn't as expensive. When we negotiate rates down, we're also negotiating our commission down."

Planners' fallback position on rates seems to be in asking for more in the way of merchandising support. Some of the major group publishers like Chilton and MacLean Hunter are accommodating buyers with services such as customized research that in some cases can even bring in profits.

These services may help trade books keep more dollars in the print sector rather than shifting to experiments in media such as cable or even the more consumer-oriented business books such as *Business Week*. For example, General Electric's consumer and industrial lighting division put some of its trade dollars in cable this year, reasoning that no one category of magazines reaches the people who light up companies and hospitals. They expect to place more dollars in cable next year.

Other companies are trying direct marketing, sales promotion and even good old-fashioned public relations. Desktop publishing, for instance, is leading many advertisers to produce their own circulars, which can be mailed to prospects identified by lists they buy from trade magazines.

Still others are going one step further, into pre-recorded videocassettes that proponents claim can be used over and over as a sales tool, training apparatus and general goodwill enhancer. Richard Kaye, president of Semel/Kaye, an agency based in Northbrook, Ill., claims "Video is the hottest area in B-to-B. Every one of our clients is asking, 'Can we do this in video?' "

Another targeted option for advertisers is local and regional business publications. But these magazines have had a rough year too. Plus, they are pricey by any per-thousand measurement and take work to buy. Camille Harris, founder of National Business Network of Regional Business Publications, which is now owned by 3M, doubts the majority of her network's books will raise their page rates at all in 1989. "Instead, they'll offer a lot more package deals and merchandising," she says. "Advertisers will get the chance for much more face-to-face selling at the local events that the publications will sponsor."

The good thing about today's more complicated atmosphere, reasons the Shalek Agency's David Buckley, is that it makes both advertiser and publisher more creative and concentrated on getting results. As he puts it, "All this is making the buyer and the seller really get right down to the bottom line of what they can accomplish." ■

**BUSINESS MAGAZINES' SOURCES OF REVENUE**

| Year | Advertising | Subscriptions |
|---|---|---|
| [illegible] | [illegible] | [illegible] |
| 1977 | 71.6 | 28.4 |
| [illegible] | [illegible] | [illegible] |
| 1979 | 71.1 | 28.9 |
| [illegible] | [illegible] | [illegible] |
| 1981 | 70.0 | 30.0 |
| [illegible] | [illegible] | [illegible] |
| 1983 | 67.7 | 32.3 |
| [illegible] | [illegible] | [illegible] |
| 1985 | 71.5 | 28.5 |
| [illegible] | [illegible] | [illegible] |
| 1987 | 72.2 | 27.8 |
| [illegible] | [illegible] | [illegible] |

*Source: James R. Kobak & Co.*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# BACK TO BASICS

## National rates will reflect some publishers' problems that are closer to home.

*by Amy Alson*

The quest to increase newspapers' share of national advertising has been a major, if frustrating, preoccupation for their publishers. Chances are it will remain so in 1989, but whether it gets the same attention as in the past remains to be seen as these crusaders wrestle with more fundamental business problems.

Publishers costs are on the rise, though less than for some other media. Of more concern is the fact that some sources of revenue appear to be weakening in the face of an uncertain economy and a fiercely competitive selling environment. Classified advertising, which finished 1987 up 15% and accounted for 36% of total industry ad revenues, is expected to increase only 9% in the year ahead. And retailers, those core newspaper advertisers, are suffering anemic sales and merger dislocation in 1988 and thus have fewer ad dollars to spend. Publishers have no choice but to look for relief wherever they can find it. One place is in national rates, which are likely to rise 7% to 8% for 1989.

MARC YANKUS

This has some buyers worried. Bud Shields, newspaper buying supervisor at Lintas: Campbell Ewald in Warren, Mich., whose major client is General Motors Corp. (the top-spending national newspaper advertiser in 1987), says, "We were anticipating increases of about 7% [for 1988], and they've been coming in around 8%, 8.5%, 9%. Gannett raised rates in July, about 8.5% right across the board."

Given such broad mid-year increases, Shields says rates shouldn't climb more than 7% in 1989 and "hopefully not until midyear again. Otherwise, we're going to have second thoughts on the amount of business we do in those papers."

Another troublesome development for publishers is that the intermedia battle for national advertising dollars has moved down to the local level as newspapers face increased competition from other local media. Spot and local television as well as cable are courting local advertisers aggressively, and the expanded market for yellow-pages ad-

vertising is seen by some publishers as another drain on local ad dollars.

Meanwhile, ad spending is down among regular newspaper users. The financial-services category was battered by last year's stock-market crash. Tobacco companies have continued to cut down, setting the medium back a core ad category. And retail linage is soft.

For example, in the first three months of this year, department stores trimmed advertising in newspapers 12.8% from the year-ago period to $919.6 million. Discount chains such as K mart cut newspaper advertising by a stunning 46%, to $90.1 million, according to the Newspaper Advertising Bureau (NAB).

In the financial section, investment brokers cut back 42% to spend $10 million for the quarter, the NAB reports. And mutual-fund marketers spent 53% less, or $3.3 million, in the first quarter of this year compared with the 1987 first quarter.

Overall, retail newspaper-ad expenditures rose a meager 1% in the first quarter, compared to the same year-ago period, to $3.3 billion. Publishers are feeling the pressure to restore linage growth in this traditionally strong area.

Back in the national arena, Jack Cohen, vice president, director of print and outdoor media buying at DDB Needham Worldwide, says, "Unfortunately, newspapers have been hurt very seriously by the fall-off in [retail] ad linage. Rates still are not negotiable," he says, but publishers certainly are more flexible. "What they've done is make more rate breaks. You can begin to get the discounts for less amounts of space.

"We're projecting newspaper rates for '89 will be up 7% from '88 rates," Cohen says. "If they go up a lot more than that, volume will fall off completely. Certainly there's no circulation increase." He also adds, "I think that they'll offer us more in the way of positioning. Upfront space is still given to the retailers. You would think they would court us [national advertisers] a little more recently, don't you? I hate to be negative about it, but national advertisers still don't get the best positioning in newspapers."

Lance Primis, president of the *New York Times* and chairman of the Sales Structure committee of the Future of Advertising Task Force (FoA), a joint project of the Newspaper Advertising Bureau and the American Newspaper Publishers Association, insists the FoA has made progress on that front. "This task force has found a way to get publishers in major markets to cooperate . . . to meet national advertisers needs," he says. His committee is tar-

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geting five major marketers in different advertising categories that do not have a big presence in newspapers. So far, its efforts have yielded business from American Express, and a committment is said to be coming from Federal Express.

National advertisers' expenditures in newspaper in the first quarter of this year totaled $848.3 million, up 2.2% over the 1987 first quarter. In 1987, national ad revenues in newspapers rose 4% to $3.5 billion, or about 12% of $29.4 billion total newspaper ad spending, and 11% of total national ad dollars, according to the NAB.

For 1988, newspapers' national ad revenues should rise 5% to $3.7 billion, largely "due to higher ad rates" driven by "much higher newsprint costs," says Robert J. Coen, senior vice president, director of forecasting at McCann-Erickson.The NAB estimates a more sanguine 7% gain for $3.8 billion this year.

Dwight Brown, advertising director at the *Houston Chronicle*, says newsprint costs rose much faster this year than in recent years, so publishers must, in turn, raise their prices. But economically depressed markets such as Texas can't take huge hikes, he says, so it's essential to sell more ads.

The market for newsprint, which represents nearly one fourth of newspaper-publishers' costs, is indeed strong, which means it can command higher prices, and relief is at least a year away. The addition of new and refurbished mills by 1990 will end a five-year period during which no new mills were opened in the U.S. Says Sara Freund of the American Paper Institute, "The mills say they will have 695,000 additional tons of capacity by 1990." But that won't arrive in time to assuage present troubles.

There is an ironically bright spot for newspapers in the current cost scenario. Higher paper costs also put pressure on the free-standing inserts that have stolen much regular advertising — particularly coupons — from newspapers in recent years. But daily papers aren't affected by a huge postal-rate hike that made inserters more dependent on newspapers for distribution.

Some newspapers are taking revenge, says one ad director, and raising distribution rates to insert advertisers who use outside printers. Hoping to

## NEWSPAPERS' TOP-TEN ADVERTISERS 1987

| | 1987 Investments | 1986 Investments |
|---|---|---|
| 1. General Motors Corporation | $174,889,000 | $146,430,000 |
| 2. Ford Motor Company | 100,690,000 | 76,136,000 |
| 3. Chrysler Corporation | 70,166,000 | 42,203,000 |
| 4. Texas Air Corporation | 67,287,000 | 63,417,000 |
| 5. Philip Morris Companies, Inc. | 49,740,000 | 57,589,000 |
| 6. AMR Corporation | 36,195,000 | 25,194,000 |
| 7. American Telephone & Telegraph Co. | 35,920,000 | 31,106,000 |
| 8. Allegis | 29,368,000 | 26,900,000 |
| 9. Daimler-Benz AG | 28,415,000 | 23,340,000 |
| 10. Toyota Motor Sales Co., Ltd. | 28,409,000 | 22,878,000 |

*Source: Media Records*

lure these advertisers back into ROP, he says, "We're not going to let this little printer run our business."

Another major cost to newspaper companies is labor, but industry analysts say labor costs have been pretty stable this year, with unionized newspapers inherently carrying much higher labor costs relative to others.

A study examining the basis on which 12 newspapers set ad rates was conducted this year by marketing consultants Moran & Tucker for the FoA task force. "We found that newspapers, in setting rates, obviously consider cost and profit objectives. They give great weight to local print competition. But they seem to pay little or no attention to local broadcast rates," notes Jerome S. Tilis, president of the *Detroit Free Press* and chairman of the Pricing and Positioning Committee of the task force.

The FoA committee has long been urging publishers to reduce the premium they charge national advertisers in order to better compete with other national ad media. And it recommends that publishers encourage efficiency by promoting flighting, or serial ads of the same size that run within a specific time period at rates discounted over and above regular volume breaks.

The NAB doesn't track the number of papers that have taken its advice. But the *Houston Chronicle*, in a trade ad for its flighting program "Chron-Flight," promises, "A cost-per-page that is so rock-bottom, you'll think you're off the rate card . . . getting the 'local' rates."

Brown of the *Chronicle* credits Chron-Flight and a local banking-services war with the paper's 11% increase in financial-services linage in the first five months of 1988 versus the same period a year earlier. "We have to have volume incentives that increase advertisers' cost efficiencies," he says. "Frequency is what we want."

*The Record* of Hackensack, N.J., now charges national continuity advertisers the same as local advertisers, as does the Wichita, Kan., *Eagle-Beacon*. But newspapers aren't rushing to offer rate parity to national marketers.

Despite national advertisers' concern over national rate premiums, newspaper's most serious competitive threat may now be coming from local broadcasters who are increasingly able to lure away local dollars. Tilis of the *Free Press* complains, "I'm not sure that intermedia comparisons can be done. . . . I'd like to know who decides what unit of print space compares with what unit of [broadcast] time . . . Does a :60 compare to a page? Does a :15 compare to a quarter-page?"

David Buckley, vice president, media director at The Shalek Agency in Los Angeles, says newspapers ought to be more flexible, even at the local level: "Television is getting much more aggressive at going after newspaper business. Newspapers are going to have to address this increased competition." He laments that newspapers still "use their traditional sell of immediacy and localization." Meanwhile, "here in L.A., one of the local stations [KCBS] is setting up a direct-response division" specifically to target newspaper's core retail advertisers.

"You're not going to buy a car off of terms provided in a newspaper ad. The image advertising on a national level" draws consumers, and only then do financing terms matter, Buckley contends.

"The overriding factor is the justification of the cost of any ad, and now [advertisers] can measure the sales leads they get from tv." And tv stations are pressing that point at a time when newspapers are especially vulnerable.

To counter such challenges, some publishers are taking a more aggressive stance to win and hold ad dollars. Though rates aren't any more negotiable than when competition for ad dol-


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*ABC FAS-FAX Report, circulation for six months ended March 31, 1988.

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## 1988 NEWSPAPER ADVERTISING EXPENDITURE ESTIMATES

| | National (12.5%) | | Retail (49.2%) | | Classified (38.3%) | | Total (100%) | |
|---|---|---|---|---|---|---|---|---|
| | $ Million | % Chg. | $ Million | % Chg. | $ Million | % Chg. | $ Million | % Chg. |
| January | 283.9 | 7.7% | 1,036.0 | 1.8% | 844.6 | 8.7% | 2,164.5 | 5.2% |
| February | 268.7 | 2.6% | 1,063.9 | 1.4% | 840.6 | 8.0% | 2,173.1 | 4.0% |
| March (p)* | 295.7 | −2.8% | 1,229.4 | 0.1% | 908.4 | −1.7% | 2,433.5 | −0.9% |
| 1st Qtr. | 848.3 | 2.2% | 3,329.3 | 1.0% | 2,593.6 | 4.6% | 6,771.2 | 2.5% |

*Source: Newspaper Advertising Bureau; * preliminary*

lars was less intense, Tilis says. "Knight Ridder, at the highest level, is becoming fixated on the customer — both reader and advertiser."

For example, five months ago the *Free Press* established a "Don't Say No" committee, made up of senior executives. "Anyone at the paper can get us together within a day or so and present us with something we said 'no' to a customer on and see if we can find a way to say 'yes.' " So far, six such accommodations have been made, though not all affected advertisers.

Tilis notes that the *Free Press* is atypical in the industry because it has declared itself a failing newspaper. That's an extreme, but major metropolitan newspapers in tough straits aren't news, and their unsure financial bearings certainly affect advertisers' dealings with them.

At the *New York Post*, which was acquired by real-estate developer Peter Kalikow from media magnate Rupert Murdoch earlier this year, national advertising manager Ron Sichler says, "We're certainly more aggressive now because we're back in business. For a while, it wasn't sure we'd be in the market."

Though going off the rate card isn't accepted practice among newspaper publishers, Sichler says, "Some [advertisers] try to do it when they sense that you're in a difficult position. Larger advertisers were more supportive. That certainly helps them in their working relationship" with the *Post*.

Regarding retail advertising, Sichler says, "The consolidation shoe hasn't dropped yet." New York City has, in recent years, lost some sizable retail advertisers to mergers or business failure. This year, Campeau Corp.'s buyout of Federated Department Stores affects both Bloomingdale's and Abraham & Strauss in their ad spending.

Evidently, publishers are willing to accommodate advertisers. What do the buyers think?

That seems to depend on what kind of risks buyers are prepared to take to put new options to the test. A glad day in 1988 for the newspaper industry was March 9, when National Car Rental and its advertising agency, Chiat/Day in New York, announced that National would shift some $2 million from television to newspapers. National's "island" quarter-page ad units ads run in


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| | % OF TOTAL POPULATION | % OF MARKET REACHED |
|---|---|---|
| • $50,000+ household income | 23% | 89% |
| • Professionals and managers | 26% | 86% |
| • College graduates | 32% | 87% |
| • 18-34 year olds | 51% | 77% |

For full details about the Austin market contact Roy Gordon, National Advertising Manager at (512) 445-3745.

Austin American-Statesman

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Sources: ABC Publisher's Statement, March 1988.
1988 Scarborough Market Report.

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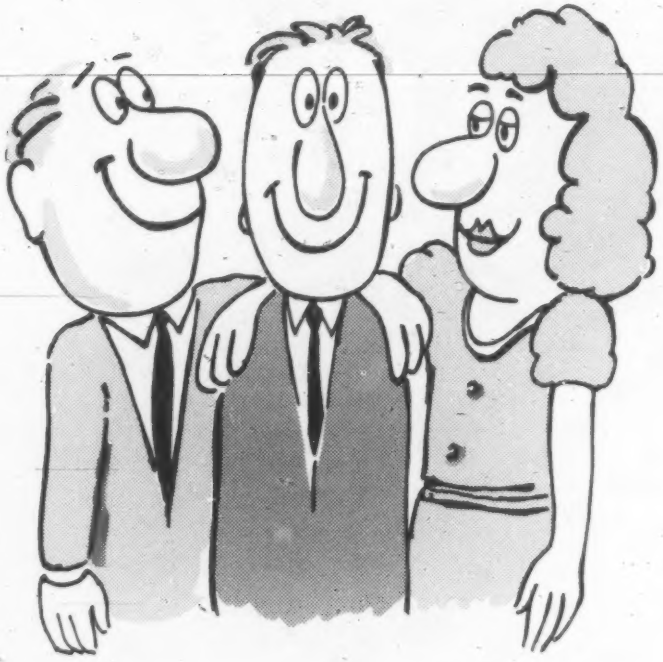

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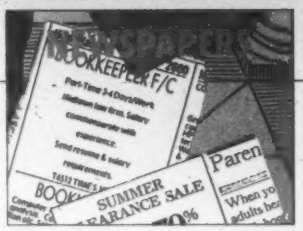
**The Columbus Dispatch**

Morning & Sunday

SUNDAY ADSAT

* Source: Scarborough's 1987 Newspaper Audience Ratings Study


the New York Stock Exchange tables of 16 major market dailies. The creative position had long been promoted by the NAB.

Bob Zach, media director at Chiat/Day, says, "In general, what we tried to do with that island unit is offset some of that pricing," referring to the rate differential between national and local advertisers: in 1987: national advertisers paid 66% more, on average, than

## Shields' buys at Lintas are CPM-driven.

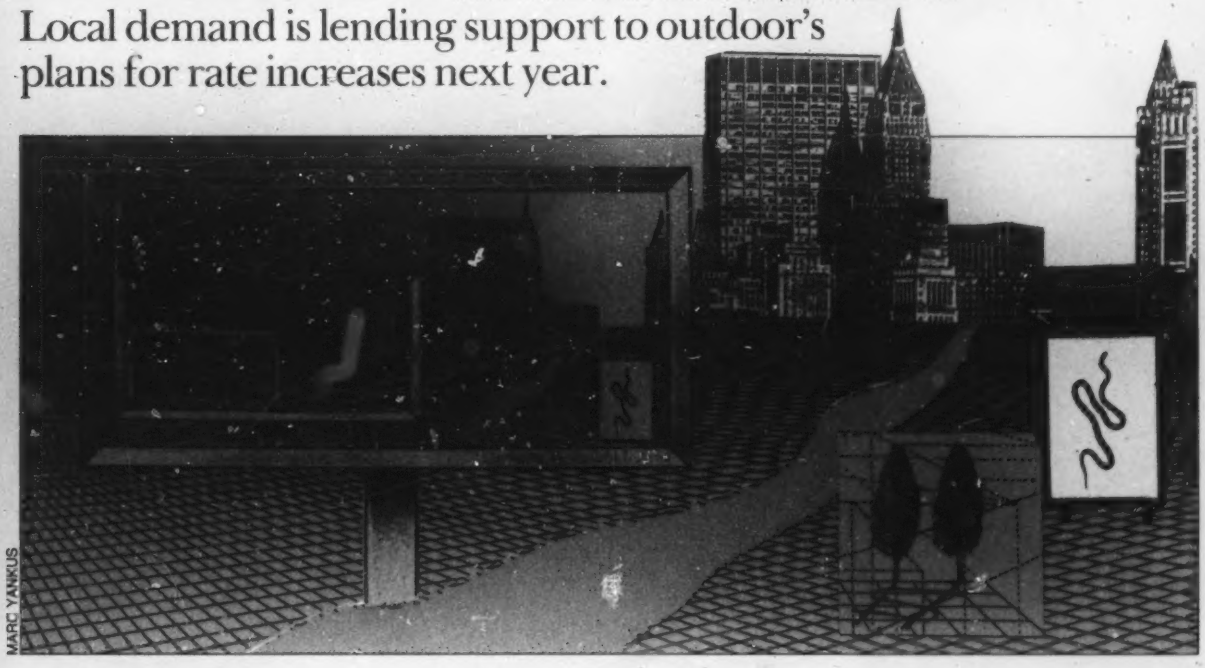
local advertisers, according to a survey of 1,000 dailies by the American Association of Advertising Agencies.

Rather than review that ongoing national-local rate debate, Shields at Lintas says he's interested in getting efficiency for his national client, based on the cost-per-thousand: "We've done a cost-per-thousand study of [more than 300] newspapers, grouped by circulation. For a paper that has a higher CPM than others in its group, we'll evaluate how important to the client [it is] and determine if it really is needed for our schedule in a market." Shields isn't issuing a threat. "We just dropped some and will drop some more, but first we're giving notice to see if they can re-evaluate their rate structures." He says 10 such notices were sent out in early July.

Breaking them down by circulation categories, Shields says, "Above 600,000, all the papers are quite economical. From 500,000 to 600,000, they don't look bad. From 300,000 to 400,000, they're still within reason. At 200,000 or below, then we start having some problems." Such bottom-line thinking will be the rule for the year ahead. ■

# LOCAL HEROES

## Local demand is lending support to outdoor's plans for rate increases next year.



MARC YANKUS

*by David Kalish*

Motorists in Southern California have spied the image of a huge serpent twisting its way along some of the state's busiest freeways. The snake's long neck curved Z-shaped above traffic, its writhing body forming a set of circles that seemed to complete the spelling of a word: "Zoo."

In fact, the snaking image is an imaginative painting rendered over three consecutive roadside billboards, each carefully positioned to catch the attention of motorists en route to the advertiser — the San Diego Zoo. But while reliance on outdoor boards is nothing new for them, in 1988 the zoo ads for the first time appeared as far away as Los Angeles.

This is the kind of news that is putting a smile on the face of the once-gloomy outdoor industry. This broadened buy is far from isolated: Outdoor industry observers report a resurgence of local advertising this year that is helping to bridge the yawning gap created by the continued flight of tobacco and liquor advertisers. In addition to amusement parks, regional advertisers like real-estate and insurance firms are rushing in; retailers are not far behind; and local health-care advertising, a virtually non-existent category in 1983, blossomed into a $22 million powerhouse last year. This heartening trend and other factors are shoring up depleted inventory levels and helping to justify outdoor company projections of a 5% rise in advertising rates in 1989.

The trend comes none too soon. The outdoor industry's power to hold to rate card has been diminished by slumping alcohol and tobacco dollars. In 1981, tobacco accounted for 42.9% of total outdoor dollars and liquor claimed 20.3%; today, those figures are 23.5% and 9.9%, respectively. Tobacco's performance in 1988 has picked up somewhat, with first quarter investments up 10.9% to $42.3 million, partly on the strength of Marlboro Menthol's campaign. The category, however, still has a way to go to match its past performance. Declares Janice Clements, executive vice president and director of media services at Laurence, Charles, Free & Lawson, "The only

thing that will keep pricing up at the 4-5% range is if local business keeps up."

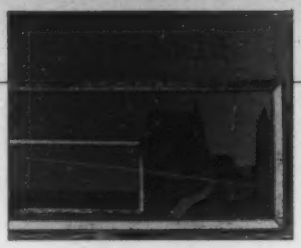
Reverberations from surging local business have already made life more difficult for impulse buyers hoping to advertise in several key markets. Most major markets nationwide are reportedly getting locked up sooner than usual.

What's more, the quality of bonus units may start to suffer as premium locations get snatched up earlier. "Our painted bulletins are practically sold out to the end of the year. You can't buy a sign on a bus in New York until 1989," brags Helene Goldfine, senior vice president of marketing at Amni America, formerly Winston Network, which has bolstered its non-transit business of late.

The local bull market has prompted a mini-boom of sorts for the outdoor industry. Following several years of flat sales, revenues rang up at $1.3 billion last year, a 4.2% improvement over 1986, according to the Institute of Outdoor Advertising. This year's revenues are expected to lurch upward another 6% to $1.4 billion, despite generally mixed returns thus far on the national front. Billboard giant Gannett reports strong first and second quarters for its local advertising.

Outdoor companies are hoping their stronger sales muscle will let them pass along to advertisers the growing cost of hanging a sign. Prices, fueled by inflation and other economic factors, are on the upswing for the wide range of products and services that go into outdoor ads: higher salaries for electricians, painters and other sign workers; bigger utility bills making it more expensive to light billboards at night; and pricier raw materials like paste and paint.

What's more, plant operators say many 5-to-10-year leases on billboard land now are up for renewal. That could significantly boost the cost of renting land, a major component that's already pricey in boomtowns like Los Angeles, Denver, San Francisco and Chicago. Ronald Waggener, head of the Eight-Sheet Outdoor Advertising



Association in Independence, Mo., estimates ground leases will cost the average renter an extra 10% this year.

Figuring the rising cost of operating outdoor boards, media directors generally agree the operators' projected 5% rate rise is not unwarranted. However, they insist it's still a buyer's market and that plant operators will surely have to step lightly to nurture relationships with new business clients. "In the markets that are competitive, the ability to negotiate brings those prices way below list. It seems that the competition is greater than ever before for the business," says John Miller, Young & Rubicam's vice president of local print and out-of-home media.

Miller's observation is hardly unique. Media directors report a conspicuous jump recently in the number of overlapping outdoor options in the same markets. They trace the phenomenon to more companies diversifying in order to protect against future downturns in the business. A recent example of diversification is Reagan National Advertising's takeover of Heritage Creative Outdoor.

While some experts say the diversification trend is leading to intensified competition among suppliers in certain markets, and thus more negotiable rate cards, others maintain just the opposite may be true. "I think there will be a regular and steady growth in prices charged and obtained in outdoor," in part due to fewer companies controlling the marketplace, says Jim Mellody, a Patrick Media spokesman.

Whatever the case, outdoor operators say their broadened array of services is merely one more weapon in their quest for non-tobacco and liquor advertisers. They claim the tack, in tandem with imaginative audience-measurement systems and a stronger sales push, has already netted them an impressive variety of clients. Indeed, Amni reports that 1987 marked a company first: Tobacco for the first time was unseated from the number-one spot, supplanted, ironically, by media advertisers.

True enough, local clients say they have been swayed by the medium's strengthened power to pinpoint precise demographic targets. "If you told me you have a specific audience, I can say where they live and get outdoor in the right place," says Jay Zitz, senior vice

## OUTDOOR'S TOP SPENDERS 1987 BY CATEGORY

| | Share of Total Outdoor | Ad Dollars (000) |
|---|---|---|
| 1. Cigarettes, other tobacco, accessories | 23.5% | $164,955 |
| 2. Retail | 9.9 | 69,766 |
| 3. Liquor, beer and wine | 9.9 | 69,490 |
| 4. Automotive | 8.2 | 57,845 |
| 5. Business, gov't and consumer services | 8.0 | 56,201 |
| 6. Travel, hotels and resorts | 7.8 | 54,882 |
| 7. Publishing and media | 6.4 | 44,963 |
| 8. Entertainment and amusements | 5.8 | 40,456 |
| 9. Insurance and real estate | 5.1 | 36,076 |
| 10. Food and food products | 2.1 | 14,978 |

*Source: Leading National Advertisers (actual ad spending may be higher due to under-reporting.)*

president of marketing and sales at Gannett Outdoor Group.

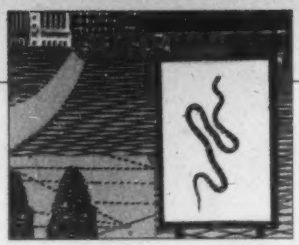
Indeed, Procter & Gamble executives say part of the reason they decided to try outdoor for Scope mouthwash was a new Gannett measurement system that allows them to target the outdoor audience by zip code and other data bases. "I believe the ability to target has always been there, but no one has mined it or understood it," says Austin McNamara, P&G's brand manager on Scope.

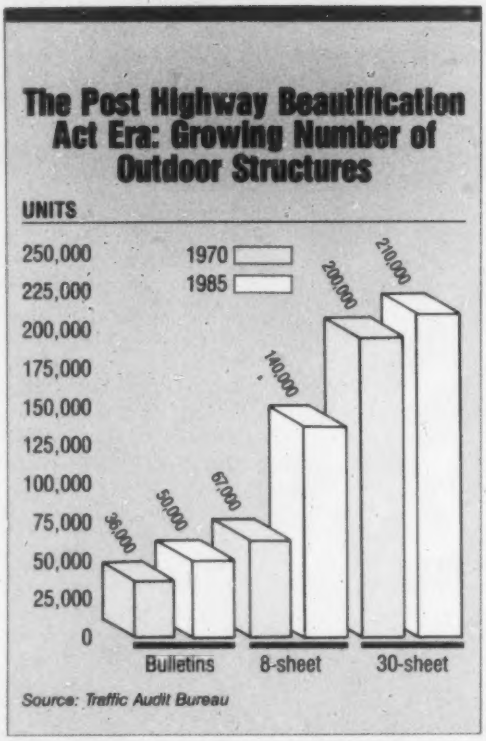
But while outdoor companies boast that packaged-goods manufacturers are hopping aboard — recent converts also include Lever Brothers' All and General Foods' Jello — agency media directors point out that these accounts comprise a miniscule slice of the outdoor industry's revenues. Says LCF&L's Clements, "I have not heard of any packaged-goods advertisers who have gotten their feet wet in a couple of markets and then gone ahead with a major-market outdoor buy."

Another gray area is the new outdoor technologies. In addition to improving visual quality of an outdoor ad, they provide more flexibility. But the cost is still prohibitive.

New high-resolution, computer-painted vinyl boards can be more easily rolled off one board and transported to another, allowing advertisers to cover a greater demographic area using the same artwork. However, "They can be at least three times more expensive," says Pete Riordan, vice president and out-of-home media manager at BBDO in New York.

Not surprisingly, agency executives would like to see outdoor companies foot more of that bill. "One thing that so far I haven't seen is any relief to the advertiser that pays to have all that printed," says Bob Flood, out-of-home media director at D'Arcy Masius, Benton & Bowles in St. Louis, who estimates computer painting a bulletin nowadays costs around $3,000. "Normally buying a board figures in the cost of the artist. The outdoor companies should work out some sort of compensation." ■






## A CONVERSATION WITH PETE RIORDAN

*Pete Riordan is vice president, out-of-home media manager, at BBDO, New York.*

**On rate-card increases:** Plants are generally going to be reluctant to raise rates any more than 5% for fear of frightening people out of the medium. In recent years some plants had gone to multiple increases during the year. Now the out-of-pocket costs have gotten sufficiently high. Even though the medium has to be efficient, it also has to be affordable.

**On negotiated rates:** Real rates are going to jump above 5%. The plants are getting a wider variety of new business and probably will have less inventory. I'd have to guess that negotiability is going to be reduced.

**On acquisitions:** There's been a little swapping around. But I don't see it being anything substantial for a long time in terms of reducing the negotiability of the medium. This normally happens in big markets where there is a lot of media. Maybe instead of four competitors, you get down to two or three. In smaller markets, this has little or no effect.

**On regional marketing:** This year advertisers have stopped talking about it and started doing it. It's a geographic medium.

**On new computer-painted vinyl boards:** If you only want three or four signs, it's a great way to go. It's not a solution for people who need long press runs. It's a lot more expensive than hand-painting.

# BUSY SIGNALS

## As the gold rush in yellow pages slows down, ad rates will begin to go up.

*by Rebecca Fannin*

The more things change, the more they stay the same. That old cliché must be getting uttered a lot by people in the yellow-page business. When the industry was first deregulated in 1984, expectations of great things were rampant. But as many publishers and their customers have found out, unshackled may also mean unprofitable.

Yellow pagers might have been wise to take a look at the airline industry and what happened to it after government regulations were lifted. The airline upstarts promised fares that were cheaper than the cost of driving. Meanwhile, the incumbents fought back with discounted rates while they promoted extras likes gourmet meals.

It didn't take long before fares and service returned to their previous level, however. Stronger conglomerates gobbled up those new competitors who had empty seats and not enough profits.

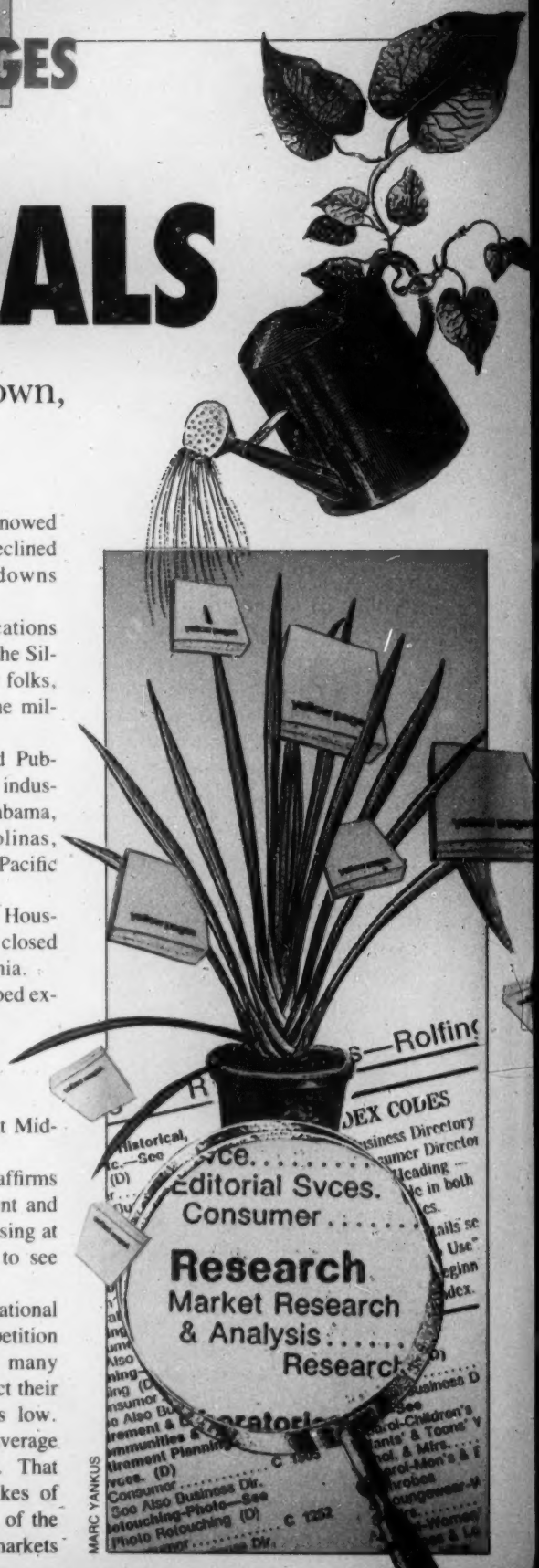
The yellow-page business is not dissimilar. This same scenario began to unfold when AT&T was split into seven regional Bell operating companies. The RBOC's kept their business in yellow-page publishing and were freed to compete not with only with independent publishers, but with each other in markets where they did not offer phone service.

Free enterprise soon had the number of directories swelling by over 400 to reach a peak of 6,481 in 1986. But by 1987, the weak were being winnowed out and the number of books declined to 6,377, with further shutdowns likely:

- Southwestern Bell Publications scrapped national expansion of the Silver Pages, a directory for older folks, after an investment well into the millions.
- BellSouth Advertising and Publishing terminated six regional industrial directories — Georgia, Alabama, Tennessee, Florida, the Carolinas, Gulf Coast, Mid-Atlantic and Pacific Northwest.
- Reuben H. Donnelley shut Houston and Dallas directories and closed 10 markets in Northern California.
- Ameritech Publishing stopped expansion of the Travel Pages.
- American Directory has delayed as many as 10 books in the Southeast region.
- Teleconnect Co. sold eight Midwestern books to US West.

"The shake-out is here," affirms Mary MacDonald, vice president and director of yellow-pages advertising at DMB&B. "You're not going to see more directories coming out."

That's a mixed blessing for national advertisers. Because of the competition from independent publishers, many utility books have tried to protect their ad base by keeping rate hikes low. Over the past three years, the average rate increases have been 5%. That compares with average rate hikes of 11% during the first four years of the decade. And in some spot markets



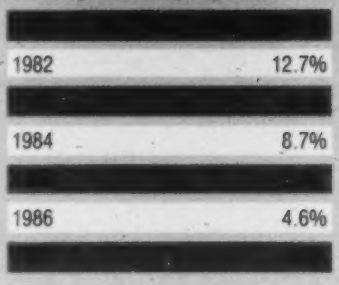

MARC YANKUS

where competition has been intense, rates haven't risen at all. Southwestern Bell hasn't raised rates a dime for the past few years in the five-state area it serves with over 1,000 directories, according to Dennis Pane, market planning and support director.

But as competition dies down in the $7.3 billion industry, national advertisers, who make up about 12% of those revenues, will find the bargains fewer. Publishers, agencies and advertisers say rates hikes will probably still average 5% next year. In some markets, rate increases will probably go even higher.

Unfortunately for advertisers, the utility book is still the dominant force by far in most major markets. Two exceptions are in Pittsburgh and Philadelphia, where Donnelley is giving Bell Atlantic books major competition. Donnelley research shows that the first editions, in 1987, were used by about half of consumers, according to Michael Colistra, assistant vice president at Donnelley, which publishes 43 proprietary directories with a majority in Pennsylvania. Nationwide, however, independent publishers only have gained a 15% share of total industry revenues, according to the American Assn. of Yellow Pages. "I haven't seen the kind of inroads I would have thought," says Jim Chadborn, marketing manager at Ryder Truck Leasing & Services division, one of the leading yellow-page advertisers.

**HOW HIGH THE HIKES**
**(Average rate hikes in yellow pages)**




Source: DMB&B

Many utility directories, in fact, have grown stronger since competition began. For instance, Pacific Bell Directory, which publishes 100 West Coast directories, plans to increase rates next year by as much as 7%, according to John Gaulding, president and CEO. "Why should I discount rates when our usage figures are up dramatically," he asks. Five major publishers, including Donnelley and GTE, had caused its usage to slip. But the figures shot up after Gaulding introduced a community information section in July of '87, and spent $1 million to advertise the Smart Yellow Pages.

In New York City as well, Nynex Information Resources has put up a strong defense against interloper Southwestern Bell. In fact, the rumor among consultants, agency buyers and advertisers is that the Southwestern Book is losing tons of money and may be forced to fold. Southwestern denies this, noting that pages in Manhattan's second edition are up by 50%.

Undaunted, Nynex says ad-rate increases for the utility books should be "less than 10%," according to Dennis Morgan, national sales manager for

## A CONVERSATION WITH STEVE TROY

*Steve Troy is the newly appointed president of Ketchum Yellow Pages.*

**On rates:** Increases in the past couple of years have been very low, in the 4% to 5% range, because of the intense competition. As some of the independent publishers are acquired by larger companies and the utilities begin to retrench, we are expecting that rates may be slightly higher than recent years. But they won't be as high as the 8% to 10% we were seeing before deregulation.

**On the shake-out:** One reason that some new competitors in the yellow pages haven't done well is that the national advertiser is still reluctant to go into an additional book in a market. It's usually an either/or proposition.

But we think that there will still be a need for neighborhood directories because there is a need for businesses like pharmacies and pizza parlors to advertise.

**On budgets:** The last reason that clients should be increasing their spending is because of proliferation of books. What we have found is that advertisers have grown more sophisticated about targeting their directory advertising.

**On the need for research:** We need to be able to rank directories to increase advertiser efficiency and ultimately lower costs. With the extra competition, this has become more important. For instance, there are 61 directories in the Los Angeles market. Some advertisers have come to believe that if they buy six or seven directories and reach 75% of the market, they have done a good job.

Nynex. Although that hike exceeds the average, one encouraging note for advertisers is that Nynex has stopped billing national advertisers 4% more for the same space as local advertisers — the first time this differential had existed in the medium. "That backfired on them," says Lee Matthews, president of Bernard Hodes Yellow Page Services, an Omnicom subsidiary. "From the terrific uproar we put up with Nynex, others wouldn't dare start charging us a higher rate. We were able to show that national business is actually cheaper to handle," he adds.

While national advertisers and agencies are pleased that competition held rate increases low in recent years, they still remain quite annoyed that rate increases have been higher than the inflation rate of 4.3%. The utility books are taking much of this flak. "It's like a monopoly situation because you find that you still have to be in the utility book," says Peter Berlo, advertising manager for Saab-Scania of North America. "It's almost frightening," he adds, "because you are almost forced to pay those rates."

Publishers argue, however, that they haven't passed along the multimillion price-tags for promotion of directories since competition. Instead, profit margins of about 20% for publishers have eroded, points out Donna Yeagers, a telecommunication consultant with Paine Webber.

Also, publishers have been hit with a 7% rise this year in groundwood paper stock. Next year, another 7% rise is expected, according to Robert Seyler, vice president of publishing at Southwestern Bell. Paper rates have been stable, however, he notes, since 1984. In addition, distribution costs have soared past a quarter per book compared to 15¢ or 20¢ five years ago, says Martin Healey, controller with Product Development Corp., which distributes half the Bell directories.

Those cost factors aside, some national advertisers still complain budgets are excessive because competition has compelled them to list in the utility book as well as secondary and tertiary directories. "Because of the proliferation, you aren't sure which books to be in and you end up spending three times as much," says Paul Clark, a marketing manager with Energy Control Products (a division of 3M). National advertisers increased spending in the medium by 9.4% to $830 million in 1987. (See chart below.)

Yellow-page agencies, however, say they are only cautiously recommending secondary book listings. For instance, Matthews at Bernard Hodes says it won't be until next year before he even begins to consider whether to place an advertiser in the Southwestern Manhattan edition. "It all depends upon what kind of penetration the book has," says Matthews. "It's usually an either/or proposition," agrees Steve Troy, president of Ketchum Yellow Pages. In a recent study, Ketchum reaffirmed that the traditional yellow-page directory was still most often used by consumers.

**YELLOW PAGES' GOLDEN GROWTH**

| Year | National Ad Revenues (millions) | Number of Directories |
|---|---|---|
| 1987 | $830 | 6,377 |
| 1986 | 759 | 6,481 |
| 1985 | 694.5 | 6,339 |
| 1984 | 580 | 6,060 |
| 1983 | 488.7 | 6,005 |
| 1982 | 432.7 | 6,155 |
| 1981 | 379.9 | 6,124 |
| 1980 | 330.4 | 5,924 |
| 1979 | 281.8 | 5,675 |
| 1978 | 241.1 | 5,520 |
| 1977 | 208.3 | 5,258 |

*Source: Yellow Page Publishers Assn.* *Source: Nynex Information Resources*

More help will soon be on the way as the medium gets its first syndicated research. Obviously, the research will not only pinpoint individual book strengths and weaknesses, but it also will allow strong books to charge more and vice versa.

Among the parties that have jumped into this business are National Yellow Pages Monitor (NYPM), a unit of the AGB Research Group; Directory Data, a division of Survey Sampling; and Advertising Research Corp (ARC). Pacific Bell, however, is the only utility book to contract with a service (NYPM's), and ARC has the only contract with an independent, InfoPlus, Inc. "Hardly any publishers have signed up yet, and that's where the money is," notes DMB&B's Morgan.

If there is any other issue in the business, it is standardization of ad sizes. The Yellow Page Publishers Assn. has been working on recommendations for two years while publishers wait to implement some form of unity. Once standardization does occur, production costs should decrease for national advertisers.

On the horizon, national advertisers do have some new options. As many as 120 talking yellow pages have sprung up from independents. These services allow consumers to dial up information and ads from prerecorded messages and, in some cases, live operators. Preliminary research from Advertisers Research, which measured six markets, shows that one in eight consumers use the talking yellow pages. The utilities remain restricted from entering this business except as gateway providers.

The Bells are also figuring out legal ways to get into videotex, a major contender for national yellow-page ad dollars. US West recently jumped into the business by signing an agreement to jointly develop videotex in a test city with France Telecom, the outfit that successfully introduced videotex in France. US West will act as transporter of the videotex data. ■

DIRE[redacted]TING

# IN SEARCH OF SAFE GROUND

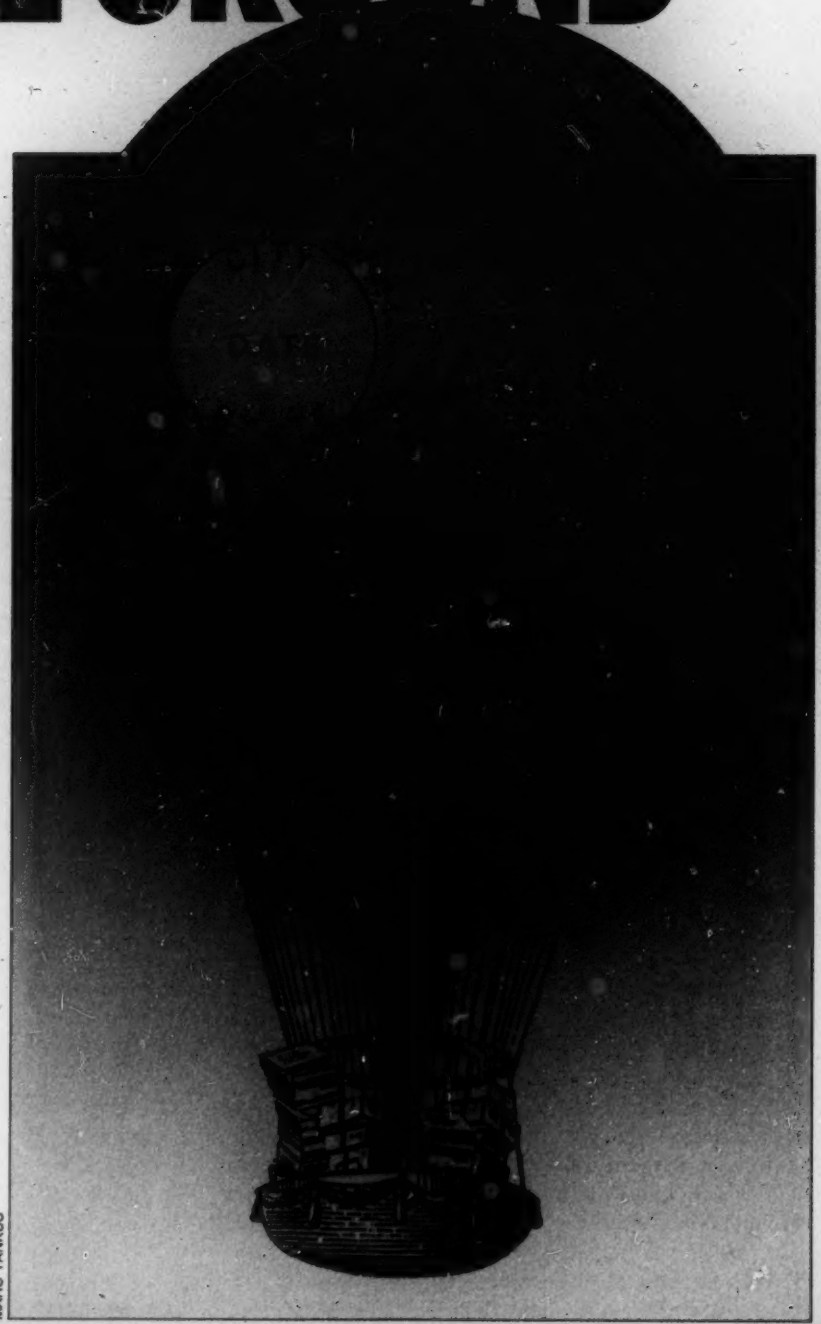
*by Rebecca Fannin*

Jack Miller, president of the Quill Corp., never knew that he could deliver his office-furniture catalogs by private delivery — at least, not until postal rates rose 25% in April. Then necessity took over. At a meeting of the Direct Marketing Assn., Miller found out a most surprising fact: He didn't have to use the postal service at all. He could privately deliver any catalog over 24 pages and bypass the private express statute that prohibits any direct competition with the persevering mail carrier.

Miller has wasted little time using his newfound knowledge. This summer, the Quill Corp. becomes among the first to test if private deliverers can mail just as well as — if not better than — government employees.

Others are quickly lining up to give it a try as they face the number-one cost issue for direct marketers this year and next. Phillip Miller, president of United Delivery Services (UDS), a major private carrier based in Grand Rapids, Mich., which is handling the Quill project, says he is finalizing contracts for several other clients.

For its test, Quill is using UDS to deliver 10,000 catalogs each in Warren, Mich., and Milwaukee. "Even though it will cost us more to run this test, we want to find out



MARC YANKUS

if this is workable," says Jim Bernstein, Quill's customer-acquisition supervisor. "We want guarantees that our catalogs will be delivered."

An unworried Miller at UDS points out that for years his company has been delivering "most of the second-class magazines in the nation." UDS, however, hadn't been in the catalog delivery business (except for ride-alongs with magazines) until this past spring. But judging from the "10 serious calls each week" Miller receives, he's projecting current revenues of $2 million in catalog delivery to double by the end of the year. He's also looking towards expanded distribution beyond the upper Midwest region.

For catalogs, which make up half the revenues in the $18 billion direct-marketing industry, the attraction is obvious. Postage absorbs as much as one third of mailer's costs, and the recent hike means that direct marketers will be paying the post office an average of 8% more. And private delivery can save money, especially for heavier items. Unlike the post office, which charges by weight, Miller bases rates on the number of mail pieces. He calculates that his service can deliver a 24-page catalog weighing approximately 3.6 ounces at about the same cost as the post office. But heavier items, he estimates, can be distributed at savings of 10% to 25% and more. Quill is delivering catalogs of 64 and 68 pages.

Direct mailers of brochures, letters and postcards wish they were as fortunate as Quill. With no way around the post-office imbroglio, their only option is to mail smarter. Indeed, the new credo of the direct-marketing industry is to refine and segment lists so acutely that wasted pitches are kept to a bare minimum. As a result, improved response rates should result in stable costs per order despite the postal hike, explains Pierre Passavant, senior vice president of Wunderman Worldwide. He notes, however, that segmented lists cost more — about $5 more per 1,000 names.

Co-op mailings, in which a group of offers is packaged in one giant envelope, such as the Carol Wright program, are a second option for reducing postage costs. But Donnelley Marketing, which produces Carol Wright, isn't guaranteeing that it won't raise rates. "We may have to raise rates in some instances because of the postal increase, but what we are trying to do is make ourselves more efficient," says Bill Ayelsworth, regional sales manager at Donnelley. "The per-unit piece is likely to go up, but if we offer more segmentation, then the volume required to generate *x* number of customers will become lower," he points out.

Still, co-op mailings aren't for everyone. "It's difficult to reach your own customer data base through co-op programs," points out Peter Michaelson, manager of direct marketing and advertising at the Polaroid Corp. "Co-op mailings aren't as personalized either," he adds.

A third alternative — delivery with magazines or newspapers — also hasn't received any standing ovations. For example, the Lillian Vernon Corp. was very disappointed with the results of delivering its catalog with the *New York Times*. (See "Postal Blues," June 1988, pg. 99).

But mailers may be forced to devise more feasible options because, guess what? Postal costs may be rising again as early as next year. The Direct Marketing Assn is lobbying new Postmaster General Anthony Frank, to stall any further hikes. It also let it be known it was unhappy with consultant H. Ross Perot's postal contract. The peripatetic Perot, whose contract was suspended in July by the government after congressional criticism, was charged with finding ways to reduce costs and was to collect one tenth of those savings. "To pay a consultant on the basis of savings was ridiculous," says Dick Barton, senior vice president of government affairs for the association.

The DMA also didn't take well the

## TOP 10 MAIL-ORDER COMPANIES BY SALES VOLUME

| | Sales (000) |
|---|---|
| Reader's Digest | $1,350,000 |
| Spiegel | $ 847,000 |
| Colonial Penn | $ 750,000 |
| Fingerhut Corp. | $ 699,000 |
| Sentry Insurance | $ 554,250 |

*Source: Maxwell Sroge Publishing*
*Year: 1986, latest statistics available*

post office's recent rejection for offering to pay the government service three fourths of a cent for every privately delivered piece mailed. Meanwhile, the DMA and the Third Class Mailers Assn. are seeking to get better service from the U.S. Post Office. The associations point out that a large percentage of what others call "junk mail" often goes undelivered.

Toughening up, the direct-marketing industry is also ready to play its trump card. If postal costs aren't stabilized, the industry threatens to rebel by slashing volume and turning elsewhere. But for 1988, direct mailers are expected to give the post office a 10% climb in business, according to Robert Coen, McCann-Erickson's senior vice president of forecasting.

**So far, alternative delivery has met with limited success. But with the threat of a second postage hike, tests undoubtedly will continue.**

If another postal hike does occur next year (and it could be in the region of 15%), look for alternative media to pick up the direct mail drop-outs. "We're advising our clients to try to absorb the postal hike but to look at other media to acquire customers," notes Jim Kobs, vice chairman of Kobs & Draft. As an example, he points to DHL Worldwide Express, which is beginning a television campaign this fall.

Newcomers to direct marketing may also become turned off. For instance, General Foods Corp., which has been testing direct-mail coupons for Kool-Aid and Crystal Light, may find that "the payback ratio isn't there once we factor in these postal increases," admits John Kuendig, director of direct marketing.

Direct-response television may pick up some of the fall-outs. For instance, Bantam Books has signed on as a direct-response advocate since the postal hike and several other advertisers have inquired about the possibility, according to Richard Sangerman, senior vice president of A. Eicoff & Co., a specialist in direct-response tv. In addition, Polaroid recently completed a three-market test campaign using 60-second commercials that offered film buyers the chance to use a Spectra camera free of charge for a week. "It was a very low cost-per-lead, and we believe if we can convert one third of those tries, it will be a very profitable campaign," says Michaelson.

Further good news is that unlike mail, television costs for direct marketers are only marginally higher. McCaffrey & McCall chairman Bob Cherin predicts next year will bring a greater supply of distressed and off-hours programing time (which direct marketers typically buy at discounted rates) than will be available during the Olympics and elections of 1988.

Moreover, telemarketing rate costs are also forecast to be relatively stable. Increased competition since the breakup of AT&T is the cause, according to Wunderman's Passavant. While cost-per-thousand for telemarketing far exceeds those for direct mail — $400 CPMs compared to $10 — agencies are

## Calculating Catalogs
## Sample Working Budget For 1988

| | | |
|---|---|---|
| **CREATIVE** | | |
| 1. Prelim. roughs & dummies @ $46/page | $ 4,968 | |
| 2. Copy w/revises @ $142/page | 15,336 | |
| 3. Tight comp. layouts @ $120/page | 12,960 | |
| Subtotal = | 33,264 | (3.4%) |
| 4. Contingency reserve @ 15% | 4,990 | |
| TOTAL = | $ 38,254 | (3.7%) |
| **ART & PREPARATION** | | |
| 1. Mechanical art/prep @ $68/page | $ 7,344 | |
| 2. Typography w/AAs @ $79/page | 8,532 | |
| 3. Repros, position prints, etc. @ $30/page | 3,240 | |
| 4. Line spots & decorations @ $12/page | 1,296 | |
| 5. Photography (4 pix/page) @ $238/page | 25,704 | |
| 6. Model fees (30 shots total) @ $22/page | 2,376 | |
| 7. Color separations (4/page) @ $253/page | 27,324 | |
| 8. Cromalin proofs @ $80/page | 8,640 | |
| 9. Stripped-in print films @ $26/page | 2,808 | |
| Subtotal = | 87,264 | (8.9%) |
| 10. Contingency reserve @ 7.5% | 6,545 | |
| TOTAL = | $ 93,809 | (9.0%) |
| **PRINTING & BINDING** | | |
| 1. 250M catalogs (first quarter) @ $248/M | $ 62,000 | |
| 2. Black plate changes (2) for price test @ $800/net | 1,600 | |
| 3. 500M catalogs (third quarter) @ $227/M | 113,500 | |
| 4. 1MM catalogs (fourth quarter) @ $221/M | 221,000 | |
| 5. Order/form key changes (117) @ $48 net | 5,616 | |
| Subtotal = | 403,716 | (41.1%) |
| 6. Contingency reserve @ 2.5% | 10,093 | |
| TOTAL = | $ 413,809 | (39.6%) |
| **MAILING LISTS** | | |
| 1. Ctlg buyers w/selects, 1.536MM gross @ $82 | $125,952 | |
| 2. Subs, active & exp. w/selects, 525M gross @ $51 | 26,775 | |
| 3. Compld. files w/selects, 210M gross @ $48 | 10,080 | |
| 4. Allowance for duplications @ avg. 12.5% | (20,351) | |
| Subtotal = | 142,456 | (14.5%) |
| 5. Contingency reserve @ 5% | 7,123 | |
| TOTAL = | $ 149,579 | (14.3%) |
| **COMPUTER PROCESSING** | | |
| 1. Reformatting, data conv., etc. @ .54M | $ 1,226 | |
| 2. Merge/purge dupe elim. @ $7.15/M | 16,238 | |
| 3. Code and run chesh labels @ $3.93/M | 6,878 | |
| 4. Misc. reports and analyses, net cost | 1,500 | |
| Subtotal = | 25,842 | (2.6%) |
| 5. Contingency reserve @ 10% | 2,584 | |
| TOTAL = | $ 28,426 | (2.7%) |
| **LETTERSHOP PRODUCTION** | | |
| 1. 250M catalogs (first quarter) @ $17.15/M | $ 4,288 | |
| 2. 500M catalogs (third quarter) @ $15.75/M | 7,875 | |
| 3. 1MM catalogs (fourth quarter) @ $14.55/M | 14,550 | |
| Subtotal = | 26,713 | (2.7%) |
| 4. Contingency reserve @ 7.5% | 2,003 | |
| TOTAL = | $ 28,716 | (2.8%) |
| **POSTAGE** | | |
| 1. First class, 3 lots of 10M @ $710/M | $ 21,300 | |
| 2. Bulk rate, 1.72MM @ avg. $105M | 180,600 | |
| Subtotal = | 201,900 | (20.6%) |
| 3. Contingency reserve @ 10% | 20,190 | |
| TOTAL = | $222,090 | (21.3%) |
| **ALLOCATED FEES** | | |
| 1. Consultant(s), development – 100 hrs. @ $125 | $ 12,500 | |
| 2. Consultant(s), oversight & review – 180 hrs @ $88 | 15,840 | |
| 3. Consultant(s), fulfillment & systems – 290 hrs. @ $75 | 21,750 | |
| 4. Est. travel, phone, express chgs., other expenses | 10,000 | |
| Subtotal = | 60,090 | (6.1%) |
| 5. Contingency reserve @ 15% | 9,014 | |
| TOTAL = | $ 69,104 | (6.8%) |
| GRAND TOTAL = | $1,043,787 | (100%) |
| GRAND TOTAL (less contingency reserves) = | $ 981,245 | (100%) |
| CPM (with contingency) = | $ 596.45 | |
| CPM (without contingency) = | $ 560.71 | |

Source: Shell Alpert, direct marketing consultant

advising clients to re-examine its potential. The key reason is that direct marketers can use the same data base for calling as for mailing. "It only costs about $20 more per 1,000 names to add phone numbers to the list of names and addresses," Passavant tells.

Next year, budgeters will have to raise their figures another 1.3% overall to take into account extra charges for paper. That's based on the general assumption that paper typically absorbs approximately 15% of direct mailer's cost and that paper costs for direct marketers are going up by at least 8%. Paper costs also rose this year (1988) but had been flat for the preceding three years.

The Quill Corp., for one, recently cut paper costs for its large 380-page catalog by replacing 36 lb. to 40 lb. paper with 32 lb. stock. Monthly mailings are also weighing in lighter as 40 lb. stock becomes 32 lb. "We are geting a savings of about $15,000 a month on the flyers now," says Don Hoff, advertising manager.

List rental may also be slightly steeper next year. One reason is that mailers will be paying those extra

charges for more finely targeted lists of prospects. While better response rates may help absorb that extra cost, however, increased demand could lead list managers to take advantage of the situation and raise rates. List managers deny this, however. "We plan to keep our rates pretty stable because of the increased pressure from postage and paper costs," says Ralph Stevens, president of Woodruff-Stevens & Associates. Over the past five years, list rental costs have been just that, rising from about $65 (per 1,000 names) to $80 today.

There are some bargains still to be had in the business. Competition in the printing industry has forced better rates, according to Shell Alpert, a direct-marketing cost consultant in Lebanon, Penn., who notes that printing can account for 30% of spending. In particular, he says, reduced rates of 10% can be had for in-line finishing, a highly technical operation used by large printers for marrying letters and envelopes at the end of the press line.

Lettershop production offers another good price/value relationship, Alpert notes. Lettershops, which insert, label and sort, as well as affix stamps and put in samples, have modernized and become much more efficient, he adds. "They used to be the kind of places where you would see stacks and stacks of mail in dark, dingy corners," tells Alpert. The sad news is that since lettershops only account for about 5% of mailers' costs, it's not going to a budget saver.

Crushed with so many other significant cost hikes, however, the direct marketing-industry faces a year of enormous pressure. If viable alternatives aren't found, the entire industry could shrink as consumers rebel at being asked to pay the difference. ■

## A CONVERSATION WITH BOB CHERINS

*Bob Cherins is the chairman of McCaffrey & McCall.*

On costs: It depends a lot upon the mix of media, but on average, it should cost direct marketers close to 10% more next year. If the marketer is a heavy direct-mail user, that percentage, of course, will be higher.

On direct-response tv: That's an interesting subject because next year will bring a greater supply of distressed and off-hours programing time, which direct marketers typically buy at discounted rates, than was available during the Olympics and elections of 1988. We see only marginal increases for this medium.

On telemarketing: We don't expect to see any discernible difference in costs next year.

On the postal-rate increase: There have been postal-rate increases for as long as I have been in the business. And each time, everyone says, 'Oh my God. We're going to go out of business.' But mailers always find ways of planning better, being smarter and looking at all sorts of way to reduce costs. Sometimes, it means passing along costs to consumers.

On alternative methods of delivery: If there was an alternate form of delivery that I had faith in, I would test it. I think any viable options are years away.

On budgets: There is a sense in the industry of an overall slowdown. But we're not seeing any dramatic cutbacks in either list rental or paper. There is more demand for greater selectivity in names, and those targeted lists cost marginally more.

# BRAND REPORT

**No. 154: Scotch and Blended Whiskeys**

# HOW DRY THEY ARE

*by Paula Schnorbus*

There's only one way to describe sales of Scotch whisky and blended whiskey: scotched. *Jobson's Liquor Handbook 1988* reports that cases of scotch consumed last year trickled down to 14.4 million, compared with a high of 22.5 million in 1979.

Blended-whiskey sales also have been drying with the years. Last year, cases consumed were watered down to 9.3 million cases from 22.3 million in 1973.

These findings are no real surprise: Alcohol sales, especially those of brown goods, have been pretty weak for the past several years. "We're going to have to wait for the neo-pro-

**SCOTCH & BLENDED WHISKEY 1987 MEDIA EXPENDITURES ($000)**

| | Media Total | Magazines | Newspapers* | Sunday Magazines | Outdoor |
|---|---|---|---|---|---|
| Scotches | | | | | |
| Blended Whiskeys | | | | | |

*Note: Fleischmann's Preferred and Imperial blended whiskeys have no listings in our sources.*
*Sources: Leading National Advertisers; *Media Records. Liquor is not advertised on broadcast.*

MIKE QUON DESIGN

hibition attitude to wane," quips John Norton, president of Hartland Communications, a Cleveland-based market-research consulting firm. "The last time alcohol consumption was down was in the 1930s, and that was because of economics . . . Now it's down for health reasons."

But if people are drinking less, says Perry Luntz, publisher of *Beverage Alcohol Report*, a weekly executive newsletter, they want to drink better. "It's not five pops of cheap whiskey but one pop of a good whiskey at $5 or more," he says. "They want something to sip and enjoy the hell out of."

The only scotch that has been gaining any ground is single-malt scotch, although it accounts for less than 5% of sales in the U.S. Those selling the brands are getting more aggressive as well: Thanks to companies' freeing up more advertising and sales promotion dollars, some bars are now offering tasting parties for the single malts.

Speaking of increased marketing expenditures, the scotch blends have begun to really pour on the ad and promotional dollars. Guinness PLC-owned Dewar's White Label and Johnnie Walker own up to at least $25 million annual budgets. Cutty Sark, J&B and Chivas Regal are claiming budgets of close to $10 million to $15 million. Keep in mind that spirits advertise mostly in print and outdoor, except for Chivas Regal, for example, which runs 30-second commercials on airplanes and cruise ships. Also, most of the big brands have begun delving into direct mail and starting "clubs" to generate interest. These clubs sell goods like clothing, home-electronics equipment and sporting goods at a discount.

Most of the scotches and blends are not surprisingly after upscale baby boomers who want to convey a certain image. "We're not talking wine coolers here," says Hartland's Norton. "It's a whole lifestyle, mindset thing," says Norton. "Beer is blue collar, and you wouldn't order a glass of white wine from a bar; scotch is the only way to go," he reasons.

Norton may be partly right. Mediamark Research Inc.'s spring 1987 report says scotch drinkers' incomes are high, but so are their ages; they're more than a wee bit beyond yuppie-dom. MRI's key demographics of heavy scotch drinkers were male college graduates, age 55 to 64, who were professionals living in the Northeast and making $50,000 a year or more in annual household income (See Brand Report Index, page 131).

***Dewar's has been running two campaigns for almost two decades.***

Meanwhile, blended whiskey shows itself to be as different in demographics from Scotch whisky as it is in spelling. The only similarity is that most heavy blended-whiskey drinkers are also men living in the Northeast. However, the age group drops down to 18-to-24. They live in households with annual incomes of $40,000 to $49,999, and they are high-school graduates who are, for the most part, single. Jerry Ohlsten, director of product development at MRI, points out the age group is "probably the most experimental in the liquor business. Their drinking habits haven't been firmly established." Ohlsten adds that the 18-to-24 age group accounts only for 16% of all men and that 55-to-64-year-olds make up a mere 13% of men.

Consumption habits are also different between blended whiskey and scotch. Blended whiskeys are of the shot-and-a-beer ilk. They also don't do much advertising, except for the category leader, Seagram's 7 Crown, which buys space in national magazines and also is known for its famous mixture with 7Up to make the 7&7. Rebates and couponing are more the norm for this liquor sector. Regarding blended whiskeys, Luntz notes that "when case sales decline, advertising budgets decline. It's a stupid way to approach it." Luntz also complains that the liquor industry doesn't go after newly legal drinkers as well as they could through ads.

But Stephen Eskoff, senior vice president and national sales manager for Hiram Walker's Imperial blended whiskey, doesn't think advertising will

change the drinking habits of young consumers because they run the gamut of the spirits experience, making brand allegiance a difficult goal for any marketer to attain.

Instead, blended whiskeys are big on rebates, a quick way to move cases and grab market share and lose profits all at the same time, many in the industry feel. Scotch marketers also had delved into couponing but have stopped because they felt their images were being hurt — not to mention their pocketbooks.

However, Marty Atlas, vice president of marketing and sales at publisher Beverage Media Ltd., warns that if you stop refunding or couponing "and others don't, you'll lose floor space and shelf space. Once you do, it's hard to get back in."

Still, all is not lost. A survey of bartenders conducted earlier this year by *Beverage Media* found that scotch and soda was the seventh most-asked-for drink while the 7&7 came in eighth.

Following are the top scotches and blended whiskeys ranked by estimated sales of cases, according to *Business Week* magazine, as derived from Clark

Gavin Associates Inc. Also used as a reference is *Jobson's Liquor Handbook 1988*, which is based upon figures from Steve L. Barsby & Associates Inc. The biggest scotches in 1987 were Dewar's White Label which sold an estimated 1,900,000 cases; J&B, 1,275,000 cases; Johnnie Walker Red, 950,000 cases; Chivas Regal and Cutty Sark, both 750,000 cases.

The top blended whiskeys in 1987 were Seagram's 7 Crown, 3,900,000; Kessler, 1,100,000; and Calvert Extra, 650,000 (all three of which are Seagram products); Fleischmann's Preferred, 482,000; and Imperial, 420,000.

## SCOTCH

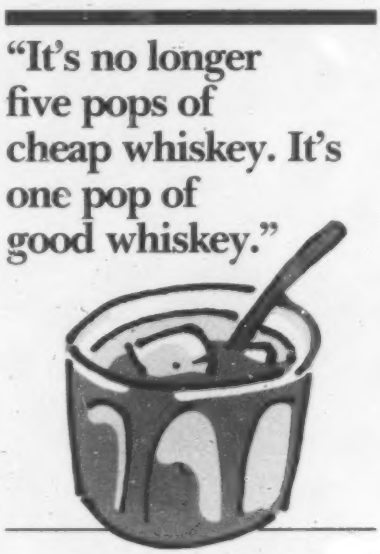
### Dewar's

Dewar's White Label has been using the same *two* campaigns for two decades. The Scotch whisky, which started flowing in 1846, has had its "profile" campaign for almost 20 years, just after agency Leo Burnett took on Dewar's advertising in 1968. It is designed to reach people who are younger, 25-to-35 years old, and who are professionally oriented. The ads have profiled 85 up-and-comers, ranging from ballerinas to safari organizers. Says Jean Ercolani, assistant marketing manager, "We don't want people who have already made it. We want those who are striving and doing great things. [The profile] is somebody the audience can relate to." The "legends" campaign, which promotes the history of Scotland and is a sort of a maintenance campaign for older scotch drinkers, was introduced in 1972. "We think we are most identified with Scotland," says Henry Yaris, Dewar's business manager, U.S.A.

Dewar's entire target audience is 25-to-54, but it could also go down to 21, says Yaris. Asked about demographics, he says the target "does make more money. They are college-educated and have greater home ownership."

The ads appear in business publications, newsweeklies and also cultural magazines such as *Playbill* and *Opera News*. Outdoor advertising appears throughout the country, but newspaper advertising is done less frequently. When newspapers are used, Yaris says, it's because magazines are low in circulation and specific needs might be fulfilled by a larger-circulating newspaper. But he notes that magazines allow Dewar's to focus on a more specific demographic than a broadscale newspaper.

Couponing or rebates per bottle at liquor stores stopped a year ago. "It ran its course and was satisfactory," says Yaris. "It achieved the objective of reaching new people, new consumers of other products. We doubt we'll ever use it again."




Direct marketing started earlier this year to promote and generate members of the Dewar's Highlander Clan. The mailing list was generated from a rebate and sweepstakes program that ran more than two years ago, but the clan has now been opened to others through coupons in liquor stores. The catalog of merchandise available to members includes lots of tartan-related goods and Edinburgh crystal. There are also sweepstakes with trips to Scotland. "Everything we do from an objective and strategy point is Scotland," says Yaris of the strategy.

And speaking of tartan, Dewar's is sponsoring an exhibit on the history of tartans in October at the Fashion Institute of Technology in New York.

All told, the advertising and promotion budget for Dewar's is more than $25 million, says Yaris, adding that "the budget gets a little larger each year."

### J&B

Here's a brand that is truly going after an expanded target audience. Like its competitors, J&B advertises in the "normal" books such as *Sports Illustrated*, *Playboy*, *Rolling Stone* and the newsweeklies. However, it also runs several-page ad inserts in *Spy*, which pokes an irreverent finger at New York culture and society.

Says Bruce Nathanson, management supervisor of the account at Grace & Rothschild, "We've got to target younger drinkers. We're not naïve. We realize scotch isn't the whiskey or spirit of choice."

Otherwise, the one-page ads have featured puns for the past year, such as "J&B on the rocks" with J&B inscribed on all of the rocks on a pile. Puns also found their way into outdoor advertising. A billboard of "J&B with a Twist," is literally twisted at one end. Billboards are in Los Angeles, San Francisco, Houston, Chicago, Dallas and the Miami-Fort Lauderdale area. New creative is in the works for next year.

These efforts are aimed at a new generation of scotch drinkers, meaning the 21- to 35-year-old, white-collar professional types. Previously, the ads were more heritage oriented. Now, J&B is trying to be the stylish, contemporary brand for the sophisticated consumer.

***J&B literally twists its billboards for effect.***

In addition to *Spy*, other local publications used are *Interview, Details, L.A. Style, Los Angeles, Chicago Playbill* and *North Shore*. Their ad positioning is on the inside covers and back covers, a way to stand out from the crowd.

J&B also does sponsorships such as hot air balloon races and equestrian events. Rebating was tried out for three months around Christmas, according to David Margolis, brand manager. "We don't want the business of people who use coupons because those people are only buying for price," he says. "They won't be in it for the long term."

Margolis says the ad budget made a "big jump" at the end of last year for the new campaign. It is continuing at the level of $12 million to $15 million, beginning in October.

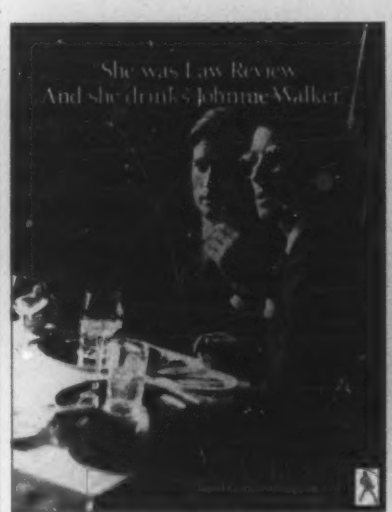
### Johnnie Walker Red

On the other end of the spectrum, Johnnie Walker is emphasizing the 35-to-49 age group of its larger target audience that includes those of legal drinking age to 49 years old. "When the scotch category was bigger," says Hersey Egginton, senior brand marketing manager, "there was a bigger effort to reach the younger person."

Johnnie Walker's current ads don't feature the Red label at all, just Johnnie Walker in general or, in another campaign, the Black label.

The general Johnnie Walker ads are geared to the yuppie in-crowd. One of the ads has already made a niche for itself as blatantly sexist by some people's standards. That ad shows the barely covered rear ends of two swimsuited women running on the beach with the tagline, "He loves my mind. And he drinks Johnnie Walker." But there is also an ad with two awestruck (and fully clothed) men staring at an unseen woman. One navy-suited man tells the other, "She was Law Review. And she drinks Johnnie Walker."

Egginton says the demographic for Johnnie Walker is "very upscale, college-educated" types who make




***Women are the focal point of new Johnnie Walker ads.***

$35,000 and more a year. The ratio is 60-40, men to women, who live in "A" counties. The brand does most of its business in major metropolitan markets.

The magazine ads appear in diverse publications such as *Black Enterprise, Omni, Sourthern Living, Spin, Army Times, Rave, The Atlantic* and newsweeklies. Local publications include *Connecticut* and *New York Woman*. Newspaper ads aren't done currently,

**"Don't fire till you see the whites of their eyes"**

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but the possibility is being discussed. Outdoor is used in metro markets. Smith/Greenland is the agency.

The Johnnie Walker Hole-in-One clearinghouse has been operating in this country for four years. About 40,000 members are registered through golf clubs yearly, and they are eligible to win a trip to the British Open. There are also tournaments and a "Hole-in-One Week." This year, Johnnie Walker held its first amateur comedy search, which will be repeated again next year.

Egginton says Johnnie Walker has been moving away from refunding and actually stopped the practice last Jan. 1, although the brand had been involved in rebates for a number of years. "We felt strongly that it wasn't an appropriate way to market a premium product in an upscale market," explains Egginton.

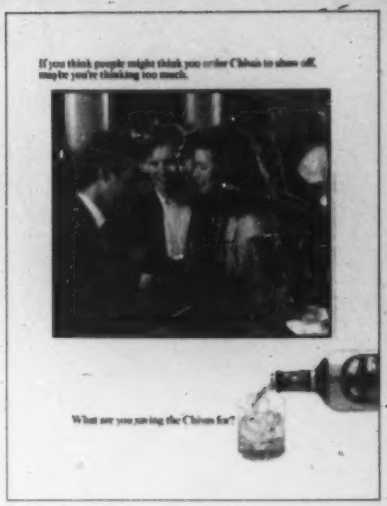
"Quite a bit of investment is being put behind the brand," says Egginton, apparently as a result of its acquisition by Guinness PLC. About $25 million is being spent on advertising and promotion.

### Chivas Regal

The spirits industry has a self-imposed ban on tv commercials, but nothing's wrong with airline or cruiseship video advertising. That's where you'll find Seagram's Chivas Regal. Four 30-second spots began airing in April that center around the scotch's latest campaign bearing the tagline, "What are you saving the Chivas for?"

But the majority of spending is in magazines, such as the newsweeklies, business publications, men's books and men's fashion books. Women aren't specifically targeted, although they appear in a number of the ads. Newspapers are used very little. Says Ellice Matsil, vice president, market research and planning for the House of Seagram, "The reason is that the brand deserves quality reproduction and the color value one can get from a magazine." In addition, newspapers go after a broader, mass market.

The demographic for Chivas, says Matsil, "is people who appreciate the best" and who are "fairly well-to-do." She adds, "We don't narrowly focus on a particular age group."




*Chivas sponsors a young-entrepreneurs awards program.*

Because the country isn't homogeneous, Chivas sponsors special events and community affairs in grass roots programing at the local level. For example, Hispanic programs are held in Miami and New York, with perhaps a tie-in with the Puerto Rican Day parade in New York. Black scotch drinkers are targeted in Atlanta and Chicago. Chivas also sponsors a young-entrepreneurs awards program.

Chivas also has special packaging programs, such as a Chivas and Crown Royal combination pack. Value-added packaging is also done. This past June, a brass picture frame was included with a bottle of Chivas. There are also classic film videocassette offers. Refunding has been done in the past but not this year. Matsil says there aren't any plans to coupon next year.

Matsil says that Chivas also has a club similar to that of other scotches. However, she says the Chivas club is on a "much smaller scale," and it is "only a direct-mail effort."

Regarding ad expenditures, Matsil says "considerably more" is being spent on advertising than LNA's estimate of $3.2 million in 1987 and hints it is in the area of $15 million. DDB Needham Worldwide is the agency.

### Cutty Sark

Cutty Sark plays on the old-boys network, or the "relationship between older and younger men" as Cornelius Marx, president of Buckingham Wile Co., which markets Cutty Sark, puts


**We're on your customer's doorstep every day.**

When Central New York consumers open their doors, we're there. We're The Syracuse Newspapers and every day we're in 60% of the households in our four county market. On Sunday we reach 74%.

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it. The campaign, almost two years old, "attempts to portray a mentor and his advisee in a situation in which they are interacting," Marx explains, adding that the interaction is affectionate while powerful in an elegant setting.

The magazine ads — newspapers aren't used except in special promotions because it is "hard to convey the elegance of the ads" — are in black and white. Books used include business magazines such as *Fortune*, weekly news magazines like *Newsweek* and "avant-garde" publications, including *L.A. Style* and *Spy*.

Cutty's outdoor campaign, launched this summer, is in color. Marx says the billboards are appearing in affluent suburbs and center cities where business people will see them. MacNamara Clapp & Klein is the agency.

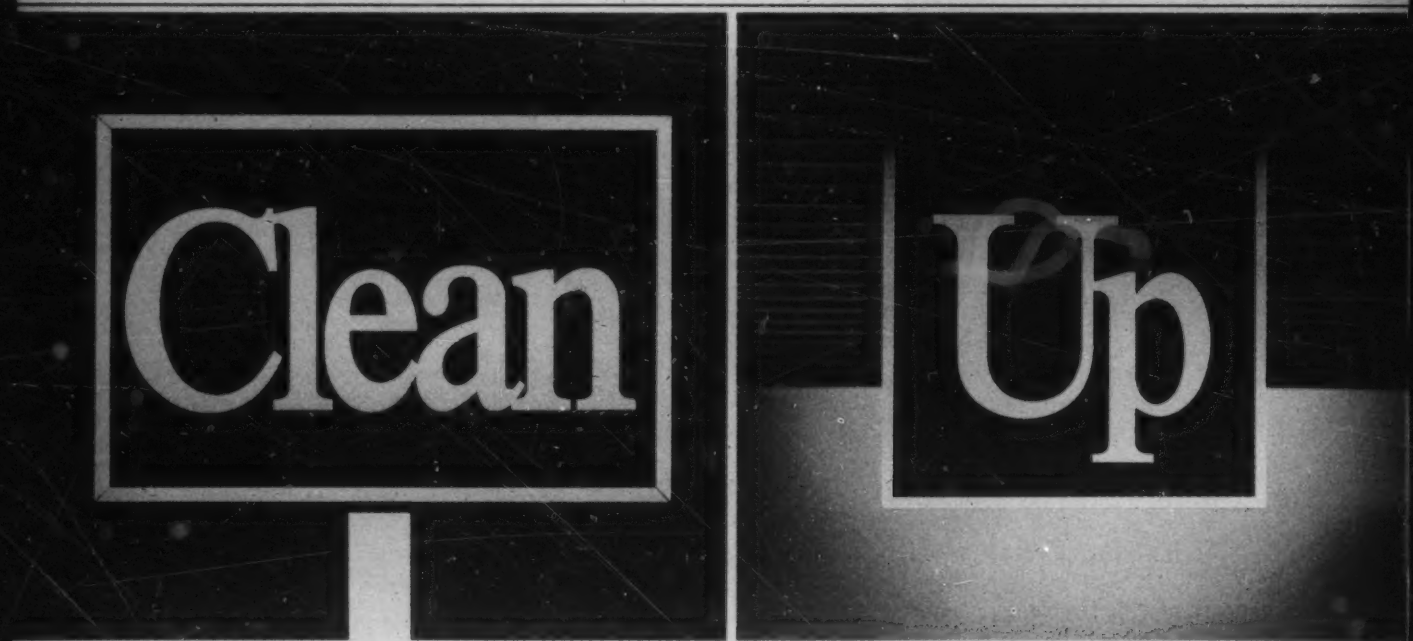
Marx says the brand is trying to reach more of a psychographic than a demographic, though the age of the target audience is getting younger. "The reason for the decline in the scotch category is that we're not attracting new, younger users," Marx explains. "They think it's an older person's beverage. Their father may have drunk it." Going after the psychographic angle, Cutty's tagline is, "Live a Cutty Above." Marx says the advertising has "come out rather well" in qualitative and quantitative research. "It's not a barn-burner campaign, but it's creating awareness," he notes.

***Cutty goes for the mentor/protégée approach.***

In conjunction with the Men's Fashion Association, Cutty Sark has been sponsoring men's fashion awards. Cutty Sark also started the Connoisseur Club last spring. Membership is free, and participants are able to get discounts on travel and brand-name merchandise. The club had its beginnings in Florida with plans for national rollout. Several hundred thousand dollars were spent on advertising just in the state of Florida.

Cutty Sark had refund programs for the last five years but ended them this year. "I think as everyone was battling for share, the use of coupons was very attractive," admits Marx. "We found it was intensely costly, expecially at the $5 level."

Marx says that LNA's estimate of $4.5 million in ad expenditures last year was about doubled this year. "In certain markets," notes Marx, "the weight will be even greater than that." Cutty Sark has strong franchises in California, Chicago and Florida, to name a few.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**BLENDED WHISKEYS**

### Seagram's 7 Crown

Blended whiskeys, which haven't been making much of a splash, have one vigorous and venerable brand in their midst: Seagram's 7 Crown. Even though sales slipped about 50,000 cases, the brand still sold almost four million cases last year, more than twice as many as its two nearest competitors, both of which are Seagram products as well.

Gil Solnin, group marketing director, calls the brand "more upbeat, more lively and more fun." It's a "party brand," he says. The magazine advertising reflects this, with youngish people hanging around on a fire escape for after-work partying; another ad is an overhead view of two couples drinking Seagram's 7 on rafts in a pool. The other ads are equally good-time oriented. They appear in general-interest magazines such as *People*, plus targeted titles like *Playboy* and *Rolling Stone*. "And," notes Solnin, "I don't think you'll see any whiskey other than us in *Star* magazine."

***Seagram's 7 Crown is the "party brand."***

The demographic for Seagram's 7 covers a wide range, including entry-level drinkers to those in their 50s, with more men than women. National magazines are the main medium used to reach the target audience, which is 25-to-44 year olds — "where the baby-boom blip is." There aren't any regional skews, explains Solnin, so local newspapers and outdoor are used to a lesser extent. Ogilvy & Mather is the agency.

Seagram's 7 has been around for more than 40 years, and its signature drink, the 7&7, was mixed for the first time about that long ago. A Joliet, Ill., Seagram representative came up with a drink to honor a local resident, Red Grange, a football player whose number was 77, hence Seagram's 7 and 7Up. A June promotion updates the drink to 7 & Slim, or Diet 7Up, for a lower calorie drink.

Like other blended whiskeys, Seagram's 7 does refunding, but just a couple of coupon offerings for $2 to $3 a bottle during the year, says Solnin. There are also sponsorships of the U.S. men's pro ski tour.

Regarding LNA's estimate of $4.5 million in ad expenditures for 1987, Solnin says that would about cover the last three months of the year when the new campaign broke in national magazines.

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IMAGE GRAPHICS FROM 3M

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3M

### Kessler

Kessler, which holds the second biggest market share of the Seagram blended whiskeys, is "very consistently sports-oriented" in its marketing and positioning, says Jim Barrett, product manager.

The brand's demographic is "somewhat more blue-collar and less educated," explains Barrett. He says a Kessler drinker is also over 35, older than the average age, and has a lower income than one would expect for a blended-whiskey drinker. Kessler's clientele generally may be found in California, the upper Midwest, Tennessee, Kentucky and Buffalo, New York.

Kessler's ads, which appear in consumer magazines, carry the tagline "Smoother than silk." Pictured may be a man throwing a football or sliding into second base. In addition, Seagram has been sponsoring professional bowling tournaments for 11 years and currently backs the $130,000 Kessler Open as well as the $130,000 Kessler Classic.

Seagram also pushes "perennial brands," whose common thread is their moderate pricing. Although Seagram doesn't market them as a group, there is an inducement to buy more of the products in order to get bigger or group refunds. Kessler, along with brands such as Calvert, Wolfschmidt and Passport, comprise one group. Refunding is Kessler's primary promotional vehicle.

Ads appear in consumer magazines and on billboards. Occasionally, Kessler appears in ROP ads in newspapers and also in FSIs on Sundays. Ogilvy & Mather became the agency within the past year.

Barrett wouldn't comment on the ad budget, but in 1987 LNA reported that Kessler had spent $432,200 on outdoor advertising.

### Calvert Extra

Seagram also has cornered the third-place market share of blended whiskeys with Calvert Extra. Product manager Barrett says the brand is popular in the South, the Midwest, Connecticut, Maryland and Delaware, as well as other states.

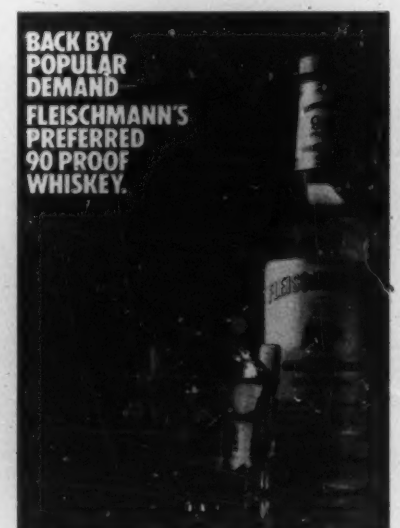
Calvert Extra appeals to an older group that is "less likely to be employed, educated or married," says Barrett. It is regionally advertised only on billboards, and it doesn't do sponsorships. However, like Kessler, Calvert Extra is very much a part of the perennial promotions.

The product had its beginnings in 1963. Calvert Extra is actually the former Calvert Reserve, which was reformulated. "As the consumer trends changed in the '60s to lighter tasting products, the decision was made to reformulate," he explains. "Some creative maven decided to call it the 'soft whiskey.' "

### Fleischmann's Preferred

Fleischmann's Preferred is a product with a demographic so old that a special promotion may be to "buy four bottles and get a hearing aid," quips Bob Bewkes, national brand manager for Fleischmann's Distilling Co. The blended whiskey, which has its biggest following in Massachusetts, appeals to a mostly blue-collar, retired drinker, says Bewkes.

Dating back to the 1870s, the brand had always been 90 proof. To save on taxes, the product dropped to 80 proof (The 90 proof never left New England and has since been reintroduced in Pennsylvania.) in 1980, but the price was never dropped, barks Bewkes. "We lost two to three times our actual volume in the southern and central parts of the country because of dropping to 80 from 90 proof," he adds, noting that Fleischmann's Preferred had been the only 90 proof brand.




*The 90 proof comes back to Pennsylvania.*

Since the brand spends only $25,000 on advertising, and that's just for the 90 proof, with zero spent on the 80 proof, the brand is pushed through pricing. Because different prices for the same product aren't allowed under the affirmation law, explains Bewkes, Fleischmann's Preferred has three different ages: 48 months, 50 months and 52 months. The different ages enable the brand to be sold for different prices in different parts of the country.

For consumers, rebates are limited to $25 per case.

Magazine advertising is confined to the trades, and sales on the brand are advertised in newspapers in the bigger markets. Fleischmann's also sponsors fishing tournaments and case cards with offers for rods and reels, which are a way to get a store display.

### Imperial

Imperial Blended Whiskey, manufactured by Hiram Walker & Sons Inc. and introduced in the 1940s, encountered stiff competition from Canadian Whiskey only to face a domestic problem of declining sales years later.

W.P. Wilde, vice president and director of marketing for Hiram Walker, says, "We stopped the decline with the help of a more local marketing and merchandising plan, but the category as a whole was flat." Sagging sales also prompted Imperial to drop its national advertising campaign two years ago, although the blended whiskey is still distributed nationwide. The strongest regions for Imperial are the Northeast and Midwest, where most of its advertising is done, and the target audience of 30- to 55-year-olds is of middle-to-upper income.

There are occasional ads in trade publications and on-site promotions in distribution centers as deemed necessary by local division managers who handle all of Imperial's advertising, explains Stephen Eskoff at Imperial. "If we need to prepare ad material, we have people in-house to do it," he says.

Outdoor advertising is employed on a limited scale as well, and Imperial also maintains a rebate program. ■

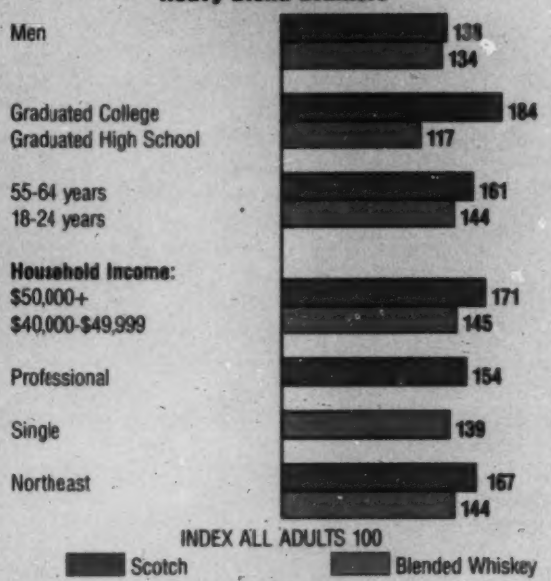
*Additional reporting by Michael Zebe.*

# BRAND REPORT INDEX

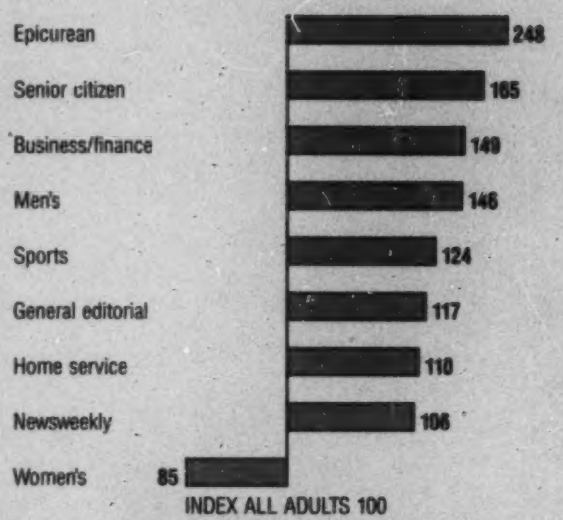
## SCOTCH & BLENDED WHISKEYS

**How to read:** Our indices of user demographics and media preferences are used to indicate the direction and amount of difference from the average. The index of the average is, by definition, 100. Thus, an index of 112 reflects a 12% above-average incidence. An index of 89 indicates an 11% below-average incidence.

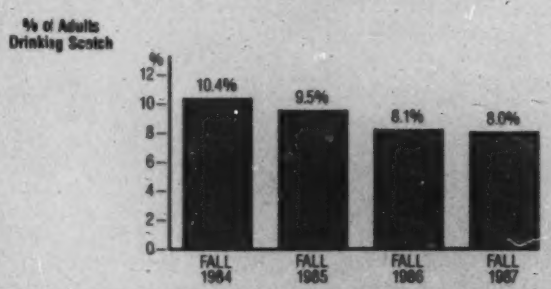
### KEY DEMOGRAPHICS: Heavy Scotch Drinkers and Heavy Blend Drinkers



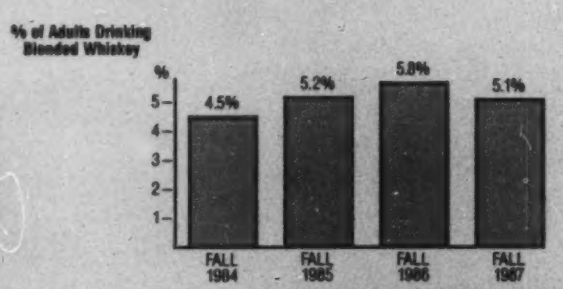

### MAGAZINE READING AMONG HEAVY SCOTCH DRINKERS

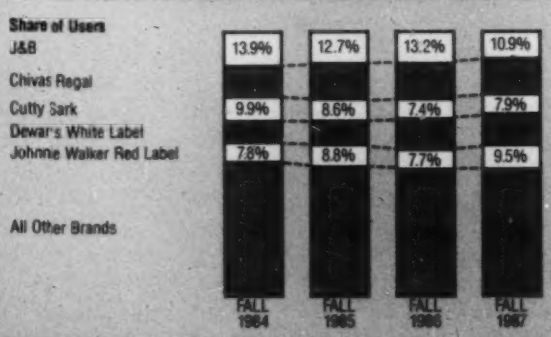


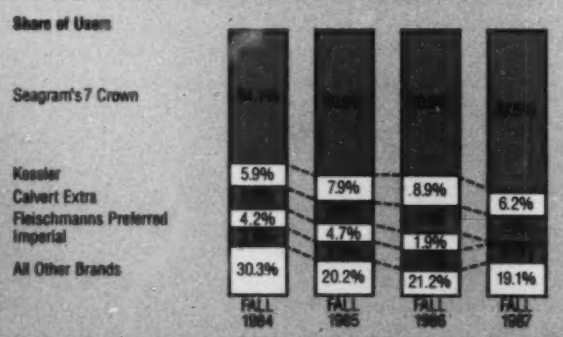

### SCOTCH WHISKEY TRENDS




### BLENDED WHISKEY TRENDS




Source: Mediamark Research Spring 1987

# ECONOMIC EYE

## DIALING FOR DOLLARS

Voice information services, from weather to dial-a-joke, are being adopted by media as a way to add value to an ad. ARC Syndicated Yellow Pages, Berkeley Heights, N.J., polled six markets to see who's dialing. Among the answers: 8.3% of Rhode Islanders, 13% of Philadelphians and 9% of Decatur, Ill., do so regularly.

## MAGAZINE AD SCORECARD

| | Ad Pages June 1988 | % change from June 1987 | Dollars spent (000) | % change from June 1987 |
|---|---|---|---|---|
| 1. Skin Care, Creams, Lotions and Oils | 90.74 | −20.3% | $ 2,934.4 | −29.8% |
| 2. Lip and Eye Beauty Products | 107.74 | +33.6 | 4,603.9 | +70.9 |
| 3. Scents and Fragrances | 139.69 | +21.9 | 3,435.3 | −9.7 |
| 4. Facial Makeup Products | 48.05 | +13.5 | 1,622.9 | +10.0 |
| 5. Prepared Dinners and Entrees (including Pizza) | 16.42 | −38.6 | 1,222.2 | −35.0 |
| 6. Liquor | 435.57 | +7.4 | 19,024.1 | +9.8 |
| 7. Cigarettes | 560.74 | +2.7 | 30,076.7 | +0.9 |
| 8. Soaps and Detergents | 42.93 | −20.5 | 2,812.7 | −14.1 |
| 9. Passenger Cars, Domestic | 450.25 | +6.9 | 21,128.4 | +12.0 |
| 10. Passenger Cars, Imported | 467.06 | −9.9 | 20,224.7 | −21.9 |

*Source: Publishers Information Bureau as prepared by Leading National Advertisers*

## MEDIA COST INDEX

1985 = 100 — 1987 — 1988

| | Sept. | % change | Oct. | % change | Nov. | % change | Dec. | % change | Jan. | % change | Feb. | % change | March | % change | April | % change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Network TV | | | | | | | | | | | | | | | | |
| Daytime | 83 | −11 | 97 | −6 | 91 | −8 | 82 | −4 | 92 | 0 | 80 | −7 | 82 | −7 | 78 | −16 |
| Nighttime | 106 | −0 | 110 | +6 | 115 | +8 | 111 | +2 | 112 | +5 | 148 | +41 | 113 | +13 | 99 | −0 |
| Spot TV | | | | | | | | | | | | | | | | |
| Prime time | 124 | +18 | 123 | +3 | 123 | +6 | 123 | +6 | 128 | −1 | 130 | −2 | 115 | −13 | – | – |
| Daytime | 102 | +3 | 112 | +2 | 113 | +2 | 105 | ±0 | 123 | −3 | 108 | ±0 | 98 | −9 | – | – |
| Network radio | 106 | +2 | 122 | +6 | 112 | +6 | 106 | +6 | 147 | +8 | 129 | +7 | 121 | +4 | 116 | +0 |
| Spot radio | | | | | 112 | +9 | | | | | 106 | +3 | | | – | – |
| Consumer magazines | 109 | +3 | 109 | +3 | 111 | +4 | 113 | +5 | 114 | +5 | 115 | +5 | 115 | +5 | 115 | +5 |
| Natl. Sunday mags | 118 | +14 | 106 | +12 | 106 | +12 | 106 | +12 | 117 | +12 | 116 | +13 | 116 | +13 | 116 | +13 |
| Business publications | 111 | +4 | 112 | +5 | 113 | +5 | 113 | +5 | 117 | +5 | 117 | +5 | 117 | +5 | 117 | +5 |
| Newspapers | 115 | +7 | 115 | +6 | 115 | +6 | 116 | +7 | 124 | +7 | 124 | +7 | 124* | +7 | 124 | +7 |
| Outdoor | 114 | +6 | 118 | +12 | 118 | +12 | 118 | +12 | 123 | +11 | 123 | +11 | 123 | +11 | 123 | +8 |

Notes: Percentage shown is relative change from the same month/period the year before.
*Revised

Sources:
**Nighttime Network TV**—Cost per average 30-second spot, 7:30-11 p.m. Monday-Saturday and 7-11 p.m. Sunday from Broadcast Advertisers Reports' (BAR) Network TV Service.
**Daytime Network TV**—Cost per average 30-second spot, 10 a.m.-4:30 p.m. Monday-Friday from BAR's Network TV Service.
**Network Radio**—Cost per average 30-second radio announcement from BAR's Network Radio Service.
**Consumer Magazines** estimate based on reported SRDS cost of a page, four-color in 40 national consumer magazines, as reported by Magazine Publishers Assn.
**National Sunday Mags** estimate based on published (rate cards) costs of a page, four-color in the national edition.
**Daily Newspapers** estimate based on Newspaper Advertising Bureau report of SRDS costs per column inch of a sample of 784 newspapers weighted to represent the universe.
**Outdoor Posters** based on estimate prepared by Institute of Outdoor Advertising.
**Spot Radio** index represents cost of a 60-second spot in the top 100 markets from data supplied in Radio Expenditure Reports by major radio representatives.
**Business Publications** estimate based on reported SRDS cost of a page, four-color in 48 publications representing 42 business and professional classifications.